United Nations A/55/746

General Assembly

Distr.: General
25 January 2001

Original: English

Fifty-fifth session
Agenda items 116 and 126

Review of the efficiency of the administrative and financial functioning of the United Nations

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Follow-up audit of the implementation of procurement reform

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994 and 54/244 of 23 December 1999, the Secretary-General has the honour to transmit for the attention of the Assembly the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the follow-up audit of the implementation of procurement reform.

2. The Secretary-General is pleased to note the progress made in the procurement reform efforts and that the Office of Central Support Services, Department of Management, has satisfactorily implemented most of the previous audit recommendations of the Office of Internal Oversight Services. The Secretary-General takes note of the findings and concurs with the recommendations made in the present report, which aim at improving the United Nations procurement process.

01-22813 (E) 220201

Report of the Office of Internal Oversight Services on the follow-up audit of the imnplementation of procurement reform

Summary

The United Nations procurement reform process was initiated in 1994 with a study by the High-level Group of Experts on Procurement. In 1997 the Office of Internal Oversight Services (OIOS) reviewed the status of procurement reform and in 1988 it presented its conclusions to the General Assembly (A/52/813). The second follow-up audit of procurement reform was intended primarily to verify that the recommendations formulated by the expert group and by various oversight bodies had been satisfactorily implemented and to identify procurement areas requiring further improvement as well as any new issues that may have developed. The audit was carried out at United Nations Headquarters from November 1999 to May 2000 and included a review of 51 procurement cases processed by the Procurement Division valued at $116 million.

The goods and services procured by United Nations Headquarters, offices away from Headquarters and peacekeeping missions in 1998 and 1999 amounted to $318 million and $468 million respectively. The significant increase in 1999 largely reflected the increased requirements of peacekeeping missions. During 1999, the Procurement Division carried out 81 per cent of all procurement activities on behalf of Headquarters and field offices, which totalled $378 million.

Status of procurement reform

OIOS found that management had expeditiously and satisfactorily implemented most of its recommendations contained in its March 1998 report (A/52/813). OIOS further noted that the Procurement Division had improved the request for proposal procedure and streamlined the documentation presented to the Headquarters Committee on Contracts. Also, the Division had encouraged the participation of developing countries in the United Nations procurement process through informational seminars organized in 1999 and 2000. OIOS concluded that overall there had been a significant improvement in the systems and procedures used by the Division during the period. Several members of the Fifth Committee, the Advisory Committee on Administrative and Budgetary Questions and the Special Committee on Peacekeeping also commented on the positive developments in the procurement process.

Review of procurement cases and procedures

OIOS found that there was a need for further improvement of the United Nations procurement system, which should be considered in the context of the ongoing procurement reform process. In this regard, OIOS noted that the following issues needed to be resolved.

In accordance with financial rule 110.17 (a), any contract to be entered into with a single contractor in respect of a single requisition or a series of related requisitions that exceed $200,000 should be submitted to the Headquarters Committee on Contracts for review. The Procurement Manual establishes the period

of reference for this rule as a calendar year (January-December). OIOS believes that using the calendar year as the period of reference may create a gap in the application of the Headquarters Committee on Contracts control mechanism. For example, two related requisitions totalling more than $200,000 but submitted on 31 December of a given year and 1 January of the following year would not have to be submitted to the Headquarters Committee on Contracts for review. OIOS believes that this situation would not occur if the period of reference were instead the 12-month period immediately preceding the award. Therefore, the current interpretation of financial rule 110.17 (a) needs to be re-examined with a view to ensuring that all cases requiring verification by the Headquarters Committee on Contracts are submitted for its review.

The Headquarters Committee on Contracts had been instrumental in proposing the current interpretation of financial rule 110.17 (a). However, in the view of OIOS, any proposed interpretation or modification of the rules governing procurement activities should be formally initiated and transmitted by the Assistant Secretary-General for Central Support Services to the Under-Secretary-General for Management for review and approval.

Decisions to procure air transport services through letters of assist with Governments rather than commercial carriers were not adequately documented and were taken unilaterally by the Department of Peacekeeping Operations. In the view of OIOS, this presented a risk that the conditions for using letters of assist may not have been met.

Despite the Procurement Division's sustained efforts to increase vendor participation in bidding for air transportation services contracts, this participation was still limited. Although up to 46 vendors had been invited to bid in some cases, generally no more than 6 responses were received. There is a need for the Procurement Division to seek feedback from vendors who did not respond to invitations to bid and, on this basis, to develop additional strategies to further encourage prospective carriers to participate in bidding for air transportation services contracts.

OIOS noted that the Headquarters Committee on Contracts recommendation to rebid a contract for the provision of inspection services under the oil-for-food programme in Iraq was not implemented in a timely manner. OIOS also found that the terms of this contract did not adequately protect the Organization's interests and resulted in questionable charges for deployment and travel.

The OIOS review showed that the Procurement Division did not adequately monitor low-value procurement cases assigned to procurement assistants and that procurement processing times for some of those cases appeared excessive. In some instances delays exceeded 100 days.

OIOS made a number of recommendations to further improve the procurement process, which included the following:

(a) The Assistant Secretary-General for Central Support Services should re-examine the current interpretation of financial rule 110.17 (a) with a view to ensuring that all cases requiring verification by the Headquarters Committee on Contracts are submitted for its review. In this regard, the Procurement Division should review the administrative implications of changing the period of reference under financial rule 110.17 (a) from the calendar year to a period defined as the 12 consecutive months

immediately preceding the proposed award;

(b) The Under-Secretary-General for Management should review and approve all formal interpretations of the financial regulations and rules governing procurement activities;

(c) The Under-Secretary-General for Peacekeeping Operations should ensure that decisions to contract with Governments are made only after determining that the conditions for using letters of assist have been met and that the basis for those decisions is fully documented;

(d) The Assistant Secretary-General for Central Support Services, when appropriate, should ensure that recommendations made by the Office of Legal Affairs and the Headquarters Committee on Contracts concerning procurement matters are fully implemented. Decisions not to accept such recommendations should be properly documented;

(e) The Procurement Division should:

(i) Conduct a market survey of available air transportation services contractors in each region where the United Nations operates and encourage the companies so identified to register as prospective vendors, thereby maximizing air transportation vendor participation in the bidding for contracts;

(ii) Ensure that the assignments given to procurement assistants include target completion dates, that major departures from target dates are approved by supervisors and that cases requiring action by the requisitioning offices are followed up in a timely manner, thereby enhancing the management of low-value purchases.

Detailed comments on a draft of the present report were received from the Office of the Iraq Programme as well as the relevant offices within the Department of Management and the Department of Peacekeeping Operations. The report has been revised, where appropriate, to reflect those comments, which are printed in italic type.

Contents

Chapter		Paragraphs	Page
I.	Introduction	1–6	6
II.	Status of procurement reform	7–11	7
	A. Implementation of recommendations on procurement reform	7	7
	B. Other recent improvements made by the Procurement Division	8–11	9
III.	Review of procurement cases and procedures	12–53	10
	A. Review of financial rules and procedures governing the submission of cases to the Headquarters Committee on Contracts	12–18	10
	B. Need to clarify the authority for interpreting financial rules	19–20	12
	C. Using letters of assist	21–26	12
	D. Limited air transportation vendor participation in the bidding process	27–28	14
	E. Recommendations made by the Office of Legal Affairs and the Headquarters Committee on Contracts regarding the procurement of inspection services not implemented in a timely manner	29–33	15
	F. Determination and formulation of requirements	34–46	16
	G. Supervision and control of low-value purchases	47–53	19
IV.	Recommendations	54–79	21
Annexes			
I.	Summary of high-value procurement cases		25
II.	Summary of low-value procurement cases		27

I. Introduction

1. Pursuant to General Assembly resolution 49/216 C of 23 December 1994, the Secretary-General submitted a report on the establishment of a transparent and effective system of accountability and responsibility (A/C.5/49/1). In that report, the Secretary-General informed the Assembly that the procurement process and related management issues at Headquarters and in the field would be reviewed by an independent group of experts drawn from Member States.

2. The main areas covered by the High-level Group of Experts on Procurement included the United Nations Financial Regulations and Rules governing procurement; the requisition, bid evaluation and vendor registration processes; the use of letters of assist; the procurement authority delegated to field missions; and the existing control mechanisms. The Group's report was submitted to the steering committee in late December 1994.

3. In 1997, the Office of Internal Oversight Services (OIOS) reviewed the status of and the progress made in implementing the recommendations of the Group of Experts and in March 1998 submitted its findings and recommendations (A/52/813).

4. The current OIOS follow-up audit of procurement reform was conducted from November 1999 to May 2000. The objectives of the audit were to verify the effective implementation of the recommendations formulated by the Group of Experts and by various oversight bodies, including OIOS and the Board of Auditors. In addition, the audit aimed at identifying procurement areas requiring further improvement and any new issues that might have developed. The scope of the audit included a review of relevant United Nations financial regulations and rules; Headquarters Committee on Contracts activities; the use of letters of assist; requisitioning and bid evaluation; vendor roster maintenance; and control of low-value purchases. The audit included a review of 51 procurement cases processed by the Procurement Division, primarily during 1999 and 2000, amounting to almost $116 million. It should also be noted that while OIOS was completing its review, the Secretary-General submitted his report on procurement reform (A/55/127) to the General Assembly.

5. Goods and services procured by the Organization in 1998 and 1999 amounted to $318 and $468 million respectively. The significant increase in 1999 to a large extent reflected the requirements of new peacekeeping missions. The Procurement Division carried out the major part of these procurement activities from Headquarters, as shown in table 1.

Table 1
United Nations procurement activities during 1999

Procurement activities	*Number*	*Value (United States dollars)*	*Percentage*
Procurement Division purchases			
For Headquarters and offices away from Headquarters	2 819	188 083 225	40
For peacekeeping missions	829	189 861 829	41
Total, Procurement Division	**3 648**	**377 945 054**	**81**

Procurement activities	*Number*	*Value (United States dollars)*	*Percentage*
Purchases made locally by peacekeeping missions	9 454	90 109 000	19
Total procurement in 1999	**13 102**	**468 054 054**	**100**

6. Table 2 provides additional details concerning the procurement cases reviewed by OIOS. The audit focused on air transportation services and telecommunication equipment and services, two commodities in high demand during recent years, and on inspection services, which recently became a requirement with the development of the Organization's oil-for-food programme.

Table 2
Procurement cases reviewed by the Office of Internal Oversight Services

Commodity	*Number of cases reviewed*	*Total value of cases reviewed (United States dollars)*	*Processing period*
High-value cases			
Inspection services	4	62 412 039	1996-2000
Air transportation services	12	33 104 898	1999-2000
Telecommunication equipment and services	3	10 979 674	1999-2000
Motor vehicles	2	6 363 194	1998-1999
Electronic data processing equipment and maintenance services	2	2 629 185	1999
Total	**23**	**115 488 990**	
Low-value cases			
Various commodities	28	405 600	1999-2000
Total cases reviewed	**51**	**115 894 590**	

II. Status of procurement reform

A. Implementation of recommendations on procurement reform

7. In its 1997 review, OIOS concluded that the procurement reform process was well under way, as demonstrated by such improvements as the reorganization of the Procurement Division, the finalization of procurement guidelines and the adjustment of delegated procurement thresholds. The previous OIOS recommendations addressed weaknesses in such areas as planning, exceptions to the requirement for obtaining bids and proposals, the training of field mission procurement officers and the reliability of the vendor roster. Generally, the Office of Central Support Services had implemented these recommendations satisfactorily, as shown in table 3.

Table 3
Status of the implementation of previous recommendations of the Office of Internal Oversight Services

Number	*Recommendations*	*Status of implementation as at May 2000*
AM97/71/4/01	Management should consider making use of the procurement and contract administration services offered by the United Nations Office for Project Services (UNOPS) for development projects.	Pending further assessment of the financial implications of utilizing the services of UNOPS
AM97/71/4/02	Financial rule 110.5 should be interpreted to permit the initiation of procurement actions pending the allocation of funds, and financial rule 110.6, as well as the memorandum of understanding dated January 1995 between the Controller and the Under-Secretary-General for Peacekeeping Operations, should be applied in cases where a financial commitment is operationally necessary prior to budget approval.	Implemented
AM97/71/4/03	Financial rules 110.19(f) and (g) should no longer be used as a basis for granting exceptions to calling for bids and proposals for the procurement of professional services, medicines and medical supplies. Financial rule 110.19(h) should be used in exceptional cases if bidding would not yield satisfactory results.	Implemented
AM97/71/4/04	The draft procurement manual should be reviewed, finalized and issued in a timely manner.	Implemented
AM97/71/4/05	Training needs should be identified and a formal procurement-specific training programme developed in cooperation with the Office of Human Resources Management.	Implemented
AM97/71/4/06	Procurement officers should be rotated between Headquarters and field missions to improve the overall qualifications of the procurement staff.	Ongoing: rotation procedures have been developed
AM97/71/4/07	Procurement authority should be delegated at the start of a field mission, and financial limits should reflect the mission's procurement needs and ability to manage this responsibility.	Implemented
AM97/71/4/08	Better use should be made of existing management information capabilities, and databases should be properly maintained.	Ongoing: the vendor roster for air transportation services is being refined
AM97/71/4/09	Vendor registration procedures should be enhanced to ensure that the vendor roster is reliable.	Implemented
AM97/71/4/10	The Procurement Division should report on progress made in respect of systems contracts.	Implemented
AM97/71/4/11	Requisitioning departments, in cooperation with the Procurement Division, should develop and submit annual procurement plans.	Implemented

B. Other recent improvements made by the Procurement Division

1. Improvement of the request for proposal procedure

8. In April 1999 the Procurement Division revised the procedures used for procurement involving requests for proposals. This revision, which took effect on 1 May 1999, was made after the Fifth Committee had identified the need for more transparency and objectivity in the Organization's procurement process and expressed its preference for the use of invitations to bid rather than requests for proposals. The Committee noted that the requests for proposals procedure was based too extensively on subjective determinations. The major innovation of the revised requests for proposals procedure was that vendors were required to submit their proposals in two separate, sealed parts — a technical proposal and a pricing proposal. In order to increase the objectivity of the technical evaluation, only the technical proposal is now transmitted to the requisitioning office.

2. Streamlining the documentation submitted to the Headquarters Committee on Contracts

9. The Procurement Division has streamlined the documentation related to cases submitted to the Headquarters Committee on Contracts for review. Previously, procurement officers were required to attach all documentation relevant to a submission and to repeat information already in the attachments in their summary presentations. To address this duplication issue, in February 2000 the Division proposed to the Committee the use of a standard form to summarize the case and to record the Committee's recommendation as well as the approval certification of the Assistant Secretary-General for Central Support Services.

3. Increased communication with permanent missions to widen the geographical base of the supplier roster

10. In his report on procurement reform (A/52/534 and Corr.1) the Secretary-General indicated that concerted efforts were being made, with the assistance of permanent and observer missions to the United Nations, to widen the geographical base of the supplier roster. OIOS noted that the Procurement Division attached great importance to communicating with the permanent missions of Member States. Several initiatives were undertaken in 1999 and 2000 aimed at informing permanent missions about the Organization's procurement activities and procedures and stimulating the participation of developing countries. However, OIOS noted that the two information sessions organized by the Division in 1999, which were specifically targeted to the permanent missions of developing countries, were not well-attended.

4. Other improvements

11. In commenting on the draft report, the Office of Central Support Services identified a number of other recent improvements in the procurement process. For example, the bidding process had been improved by ensuring that evaluation criteria and the weighting of each criterion were agreed to by the requisitioning office before the tenders were invited. Another development involved the Procurement Division's creation of a consolidated tracking system, which has enhanced the monitoring of requisitions and the performance of buyers. This tracking mechanism has since been added to the Intranet to allow direct monitoring of the status of

requisitions by the issuing offices. The Division has recently overhauled its Intranet site to enhance transparency and institute greater accountability. The Division's Internet site seeks to serve the special needs of vendors, particularly those from developing countries. This web site also provides a free advertisement facility for those vendors to promote their goods and services. Several members of the Fifth Committee, the Advisory Committee on Administrative and Budgetary Questions and the Special Committee on Peacekeeping made laudatory comments on the positive developments in the procurement process.

III. Review of procurement cases and procedures

A. Review of financial rules and procedures governing the submission of cases to the Headquarters Committee on Contracts

1. Financial rule 110.17(a) needs to be clarified

12. According to financial rule 110.17(a), any contract to be entered into with a single contractor in respect of a single requisition or a series of related requisitions that exceeds $200,000 should be submitted to the Headquarters Committee on Contracts for review. OIOS noted that the Procurement Manual further specified that such series of related requisitions should be submitted to the Headquarters Committee on Contracts if they are received and processed in a calendar year, which is not stipulated in financial rule 110.17(a). The Procurement Manual therefore requires the Procurement Division: (a) to accumulate related requisitions received and processed in a calendar year, and (b) submit them to the Headquarters Committee on Contracts when the $200,000 threshold is exceeded. This procedure reduces the risk that requisitions may be split to avoid the Committee's review.

13. The Procurement Manual establishes the period of reference for financial rule 110.17(a) as a calendar year (January-December). As a result, two related requisitions totalling more than $200,000, submitted on 31 December of a given year and 1 January of the following year respectively, would not have to be submitted to the Headquarters Committee on Contracts for review. Using the calendar year as the period of reference creates gaps in the Committee's verification because awards made to the same vendor in different calendar years (but within a 12-month period) would not be taken into account and the related case would not be submitted to the Committee. In the view of OIOS, using the 12-month period immediately preceding the proposed award as the period of reference under financial rule 110.17(a) would reduce the inappropriate splitting of requisitions and would further enhance the consolidation of purchases.

14. OIOS also noted that the Headquarters Committee on Contracts did not consider proposed awards for air transportation services from the same vendor as being related. Consequently, proposed awards for air transportation services of less than $200,000 were not submitted to the Headquarters Committee on Contracts even though the aggregated awards to a particular vendor exceeded $200,000 during the year. For example, case L8 (PD/CO494/99, short-term services, valued at $98,769) was not submitted to the Committee, even though the vendor had received 25 awards for a total value of $4.7 million in 1999. The same vendor also received 14 awards totalling $4.9 million during the period from 1 January to 3 May 2000. In the opinion of OIOS, proposed awards to the same vendor for air transportation services

should also be considered related for purposes of submission to the Headquarters Committee on Contracts whenever they exceed the applicable threshold. This would allow the Committee to assess whether each award was independently justified and whether repeated awards to a single vendor were based on sufficient competition.

15. *The Office of Central Support Services commented that changing the interpretation of the period of reference in financial rule 110.17(a) to 12 months instead of a calendar year would only replace the risk of not considering requisitions placed in December and January respectively with the risk of not considering requisitions placed in months 12 and 13.* However, OIOS points out that its recommendation involves replacing the calendar year with the 12-month period immediately preceding the proposed award, which would allow for consideration of the most recent requisitions in all cases.

16. *The Field Administration and Logistics Division of the Department of Peacekeeping Operations commented that it was concerned about the application of financial rule 110.17(a) and its interpretation because of the different budget cycles and mandates of peacekeeping missions. The Division further indicated that it would not oppose replacing the calendar year with a rolling 12-month period, but that it would need explicit guidance on the criteria for reporting cumulative awards to a vendor over a fixed period of time. The Division also suggested that the rule should not be applied to the procurement of goods and services such as real estate, freight handling or other commodities for which there may be only one viable source in the mission area.* However, OIOS does not believe that sole sourcing should serve as the basis for an exemption from the review of the Headquarters Committee on Contracts.

2. Need for a procedure to accumulate individual awards to the same vendor

17. Currently, the Procurement Division does not take into account information on the number and value of previous contracts awarded to a vendor during the previous 12 months or the commodities covered by those contracts. In the opinion of OIOS, the use of such information would make Procurement Division managers more aware of recent awards to a particular vendor and help them to identify those commodities that should be consolidated under systems contracts, thereby reducing the number of individual requisitions to be processed. For example, in cases S16 and S24, the vendors received 31 and 77 purchase orders respectively in 1999. In the opinion of OIOS, the Procurement Division should have considered consolidating the corresponding requirements under blanket purchase orders. Moreover, given that the volume of business awarded to the vendors in 1999 totalled $271,787 and $255,535 respectively, cases S16 and S24 should have been submitted to the Headquarters Committee on Contracts for review. *The Procurement Division commented that cumulative financial data on contract awards were readily available in the Reality system and the Integrated Management Information System (IMIS). OIOS is of the opinion that the Procurement Division should use those data to forecast requirements for goods and services and to negotiate the best available terms and conditions with vendors.*

18. *The Procurement Division further indicated that maintaining separate and distinct statistical time periods for each contractor would be administratively onerous and would not add value to the process. The Division added that both the Headquarters Committee on Contracts and the Division believed that knowledge of*

previous unrelated awards to the same vendor might adversely affect their objectivity in evaluating bids. This is true because each invitation to bid should be judged on its own merit for the purpose of determining the lowest acceptable bid for a particular transaction. Knowledge of previous unrelated awards is not pertinent to making such a determination. However, in the view of OIOS, it should be possible to establish efficient procedures for accumulating individual awards to the same vendor using the Reality system. As mentioned above, OIOS believes that information on previous awards to a vendor is needed for Procurement Division management to identify commodities that should be consolidated under systems contracts, including blanket purchase orders, and to effectively monitor procurement activities resulting in several awards to the same vendor. However, the Procurement Division emphasized that any consolidation of purchases should be based on projections from the annual planning exercise rather than on information based on historical experience.

B. Need to clarify the authority for interpreting financial rules

19. A memorandum dated 9 March 1994 from the Chairman of the Headquarters Committee on Contracts to the Director, Office of General Services, recommended that financial rule 110.17(a)(ii) be interpreted as considering a series of related requisitions within a *calendar year* to determine whether the threshold had been reached. The Chairman of the Headquarters Committee on Contracts went on to propose that the same criteria be used to calculate the varying thresholds at other duty stations and at peacekeeping missions. Subsequently, the Procurement Manual was revised to specify that any series of requisitions received and processed in a calendar year should be submitted to the Headquarters Committee on Contracts for review. However, the formulation of financial rule 110.17(a)(ii) remained unchanged. As indicated above, OIOS believes that using the calendar year as the period of reference for the submission of proposed awards to the Headquarters Committee on Contracts may create a gap in the application of the Committee's control mechanism.

20. OIOS notes that the authority delegated to the Headquarters Committee on Contracts does not include interpreting financial rules pertaining to procurement. Any proposed interpretation or modification of the rules should be formally initiated and transmitted by the Assistant Secretary-General for Central Support Services to the Under-Secretary-General for Management for review and approval. *The Office of Central Support Services commented that the question of defining the period for applying financial rule 100.17(a) was an interpretation that did not require revision of the rule.* Nonetheless, OIOS believes that the Under-Secretary-General for Management needs to clarify the procedures for interpreting the financial rules.

C. Using letters of assist

21. According to the revised Procurement Manual, a letter of assist is a contracting document issued by the United Nations to a Government authorizing the Government to provide goods and services to a United Nations peacekeeping operation. This method of procurement is the responsibility of the Director, Field Administration and Logistics Division of the Department of Peacekeeping Operations. The letter of assist is reviewed by the Headquarters Committee on

Contracts and approved by the Assistant Secretary-General for Central Support Services. OIOS reviewed two recent letter of assist cases relating to air transportation services: L15 (Argentina/United Nations Peacekeeping Force in Cyprus/2000-21, short-term services for $570,000) and L16 (Ghana/United Nations Interim Force in Lebanon/2000-18, short-term services for $360,000). This review identified several issues, which are discussed below.

1. Need for increased justification of decisions to contract with Governments for the provision of air transportation services

22. OIOS found that there was insufficient written justification for decisions to use government services through letters of assist rather than commercial air transportation carriers. Field Administration and Logistics Division officials advised that, in practice, the Division decided unilaterally to propose contracts with Governments rather than to use commercial carriers. In the opinion of OIOS, this practice presents a risk that the prerequisite conditions for using letters of assist might not be met. This was particularly true in case L16, where the Government intended to provide the transportation through a commercial carrier. In the opinion of OIOS, it would have been preferable to encourage this carrier to participate in the invitation to bid issued by the Procurement Division, thereby providing assurance that its proposal, if accepted, would satisfy the Organization's safety and performance requirements.

23. *The Field Administration and Logistics Division commented that it provided copies of the Headquarters Committee on Contracts presentations to the Procurement Division for information purposes and that those presentations contained the justification for the letters of assist. They further emphasized that letters of assist were used to meet military requirements and could not be compared with standard contractual arrangements. OIOS nevertheless believes that there is a need for explicit written confirmation by the Field Administration and Logistics Division that the conditions for using letters of assist have been satisfied before decisions are made to contract with Governments.*

2. Liability under letters of assist

24. The presentation by the Field Administration and Logistics Division of cases L15 and L16 to the Headquarters Committee on Contracts did not indicate whether the air transportation services offered by the Governments complied with standard United Nations requirements. OIOS found that letters of assist for air transportation services had been awarded without a sufficient assessment of whether they provided the same level of protection as commercial contracts, in terms of the Organization's liability for injuries or death of troops transported and damages. While recommending the awards in cases L15 and L16, the Headquarters Committee on Contracts pointed out the possible vulnerability of the Organization under the letters of assist procedure. The Headquarters Committee on Contracts further indicated that the liability for personal injuries or death of the troops transported could be greater under letters of assist than with commercial carriers. Although the United Nations master aviation policy, which provides excess liability coverage, applies to letters of assist, the coverage extends only to third parties, who are defined as persons other than United Nations employees, agents or military personnel.

25. Moreover, the Headquarters Committee on Contracts noted that there was an unresolved issue as to whether liabilities, as opposed to direct costs or payments, were to be taken into account in the first instance in determining whether the letters of assist was more expensive. In this regard, section 15.02.01 of the Procurement Manual stipulates that a letter of agreement may be issued provided that it is not more expensive than the cost that would be borne by the Organization if it contracted commercially for such services.

26. *The Field Administration and Logistics Division stated that as part of the letter of assist negotiation process it now required Member States to provide copies of the same documents that were required from commercial carriers in response to invitations to bid. This permits the Division to ensure that Member States have taken out passenger insurance coverage equal to or greater than the compensation limits set by the General Assembly in its resolution on claims for death and disability.*

D. Limited air transportation vendor participation in the bidding process

27. On 16 February 1999, the Headquarters Committee on Contracts urged the Procurement of Division to expand the supplier roster and to increase the participation of regional air transportation service suppliers in the bidding process. OIOS found that despite the Division's sustained efforts to increase vendor participation in bidding for air transportation services, this participation was still limited. For example, only 18 different vendors participated in the 10 cases reviewed by OIOS. Furthermore, although as many as 46 vendors had been invited to bid on the cases, generally no more than 6 responses were received. In response to the suggestion of the Headquarters Committee on Contracts for expanding the roster, the Procurement Division replied that no other regional carriers were registered with the Organization for the required types of aircraft. In the view of OIOS, the Division needs to conduct market surveys in each region in which the United Nations operates and on that basis to develop additional strategies to encourage other prospective air transportation vendors for solicitation.

28. *The Procurement Division commented that competition was generated from the number of vendors solicited rather than the number of responses received. There were various reasons why vendors did not respond to bid solicitations. These included unavailability of aircraft and vendors' awareness that their bids would be above the present market level. Moreover, the Division had made great efforts to encourage legitimate air transportation vendors to register. Since April 1999, the Division had invited all vendors on the roster to bid and had discontinued the practice of inviting only short-listed vendors. In addition, it had conducted business seminars in Member States and at the United Nations Secretariat. It further stated that although its outreach programme would continue, the opportunities available for United Nations air transportation business were already well-known to the commercial aviation community and that the level of responsiveness was unlikely to increase. OIOS, however, believes that every effort should be made to maximize vendor participation in the bidding process. This would include conducting market surveys to identify prospective air transportation vendors, obtaining feedback from invited carriers as to why they did not submit bids and using this information to encourage further vendor participation.*

E. Recommendations made by the Office of Legal Affairs and the Headquarters Committee on Contracts regarding the procurement of inspection services not implemented in a timely manner

29. OIOS reviewed case L17 (contract PD/CON/324/98) — the bidding exercise for the provision of independent agents to inspect humanitarian and other goods in Iraq for the oil-for-food programme. The original contract amount was $4,877,226 for the period from 1 February to 31 July 1999. Three amendments increased the cost of the contract to $16,238,090. The last of these amendments covered the period between 1 February and 31 July 2000. This contract was the second awarded by the Organization for those services. OIOS found that, compared with the preceding bid for the same inspection services, improvements had been made in the quality of the request for proposals and in the contract's formulation. The new contract was also more cost-effective than the previous one.

30. *The previous contract, case L17b (contract PTD/127/0085/96), was signed on 30 August 1996. It was amended five times, and reached a total cost of $25.4 million for the period between September 1996 and January 1999. Since 1997 the Headquarters Committee on Contracts had repeatedly requested the Procurement Division to rebid this contract, since it was not certain that the costs charged by the contractor were reasonable, a concern that appeared to have been well-founded. A previous audit conducted in July 1999 by the OIOS resident auditor posted in Baghdad pointed out instances where the contract had been unfavourable to the Organization and had resulted in questionable charges for deployment and travel costs. These charges could not be recovered owing to certain adverse provisions of the contract. The Procurement Division commented that on each occasion it had sought to rebid the contract. However, the Department of Political Affairs and the Office of the Iraq Programme had repeatedly demanded that the existing contract be extended, and it was only when the Office of the Iraq Programme had expanded the scope of the contract that the Procurement Division had been able to convince the requisitioner that the terms and conditions offered by the contractor were not favourable. Although not specifically commenting on this report, the Office of the Iraq Programme stated that there were valid reasons for extending the original contract. They further noted that a rebidding exercise had been undertaken subsequently and that a new inspection agent had been selected effective February 1999.*

31. OIOS compared the costs of the new contract (PD/CON/324/98) with the costs charged in amendments 2 to 5 of the previous contract (PTD/127/0085/96), which covered a 14-month period, and found that the new contact was significantly less expensive, as shown below:

Contract PTD/127/0085/96	$16,366,863 for 14-month period ($1,169,062 per month)
	$21,043,116 for 18-month period
Contract PD/CON/324/98	$16,238,090 for 18-month period
Estimated savings under new contract	$4,805,026

32. *The Procurement Division commented that comparing the first and second contract, as in the example above, was irrelevant for the following reasons. The first contract had included a number of initial investments and contingency costs that did*

not exist in implementing the second contract. Also, several infrastructures set up by the first contractor had been sold to the second contractor at depreciated values. OIOS notes, however, that the initial investments and contingency elements in the first contract as well as the depreciated cost of infrastructures in the second contract were not separately costed by the contractors or by the Procurement Division. Therefore, those costs could not be taken into account in comparing the contracts. The Procurement Division maintained that initial investment costs and depreciation were normally considered in all commercial projects.

33. On 24 September 1998, the Office of Legal Affairs expressed concerns about the delay in incorporating its proposed changes to the request for proposals, which had been transmitted by the Office in 1996 during the first bidding exercise. Those changes essentially involved clarifications to the United Nations requirements, as specified in the statement of work annexed to the request for proposals.

F. Determination and formulation of requirements

1. Need to improve the determination of requirements for air transportation services

34. According to the Procurement Manual, section 6.00, the invitation to bid should be used for the procurement of goods and services of standard and firm specifications. However, OIOS noted that the requirements for air transportation services were not adequately clarified in cases L7 and L14 discussed below, thereby effectively negating the purpose of the invitation to bid.

Case L7 (PD/CO445/99, long-term air transportation services for $7,067,600)

35. At a special meeting on 8 July 1999, the Headquarters Committee on Contracts recommended that the two lowest bidders in this case (who were found to be both technically and operationally non-compliant) be disqualified. The Committee also noted that the third bidder had not complied with the minimum payload requirement of 4,000 kilograms shown in the invitation to bid. Normally, the fourth lowest bidder, who was found to be technically and operationally compliant, should have been awarded the contract. However, the Procurement Division subsequently concluded that this bidder was unable to meet the positioning requirements of the Field Administration and Logistics Division. The Committee therefore recommended that all bids be rejected and that a negotiated contract be entered into if rebidding were not a feasible option. The contract was rebid with a reduced payload requirement, and after a second meeting of the Committee, held on 28 July 1999, the contract was awarded to the third lowest bidder.

Case L14 (PD/CO525/99, long-term air transportation services for $16,410,000)

36. OIOS noted that the positioning requirements (the dates on which aircraft would be made available) relating to this contract were changed twice. The first invitation to bid, issued on 24 November 1999, indicated that the two helicopters requested should be deployed on 20 December 1999. Since no bidder could comply with this positioning requirement, revised offers were requested by 15 December 1999 for deployment no later than 31 December. The original invitation to bid was cancelled, and a second invitation, issued on 17 December 1999, did not specify any date for positioning, but rather indicated "as early as possible".

37. Based on the second invitation, the contract was awarded to a carrier who offered to deploy the helicopters 6 and 11 days after the award, which was actually more than 10 days later than the date stipulated in the first invitation to bid. In the view of OIOS, the stipulation "as early as possible" in the second invitation could have been included in the first invitation to bid. This case illustrates that there is a need for the Field Administration and Logistics Division to more fully ascertain the extent to which projections made by field missions are realistic or are subject to change.

38. *The Office of Central Support Services noted that recommendation of the lower-cost offer would have required that the Field Administration and Logistics Division accept it as meeting the technical requirements. The Office further indicated that it was in the interest of both bidders and the United Nations to identify a firm deployment date and that it was not unreasonable for the Procurement Division to lower the standard to "as early as possible" in the rebidding exercise since earlier fixed dates has not yielded results. The Field Administration and Logistics Division emphasized that mission operational requirements must stand on their own merit and not be subjected to modification as a result of commercial considerations. The unfortunate delay experienced in the procurement exercise did not invalidate the original specifications. The Division further stated that field conditions were always uncertain and that specifications must address a broad range of operational requirements and contingencies. In view of the above, OIOS believes that whenever appropriate, offers should be solicited on the basis of the broadest range of anticipated operational requirements to avoid repeated modification of requirements and rebidding.*

2. Deficiencies in formulating requirements for inspection services

39. Case L18 (contract PTD/CON/127/065/96) for $18,170,956 involved the procurement of independent experts in the international oil trade for the Organization's oil-for-food programme. At the time of the review by OIOS, the contract had been completed. After rebidding, another award was made to the same vendor in the amount of $5,316,510 — case L18b (contract PD/CO114/00).

40. OIOS noted deficiencies in the formulation of the request for proposals for the original contract. The presentation to the Headquarters Committee on Contracts for this contract (PTD/CON/127/065/96) was made by the Purchase and Transport Division (the predecessor organization of the Procurement Division) on 19 July 1998 and indicated that the Department of Political Affairs (the requisitioning office) had recommended that the contract be awarded to the company ranked second in the procurement evaluation in 1996 based on the criterion of lowest acceptable offer. However, procurement officials stated that the significant difference of $624,096 between the prices proposed by the two lowest bidders ($1,778,220 and $2,402,316 respectively) could not be overlooked. Based on those remarks, the Department of Political Affairs requested advice from the Iraq Steering Committee, which suggested that the number of inspectors be increased and that adjusted proposals be obtained from the two finalists.

41. The lowest bidder under the initial request for proposals then made a proposal of $1,943,040 based on the new requirements, which was about $38,000 more than the other bidder, who was subsequently awarded the contract. OIOS could not determine the justification for changing the original requirements, which led to the

selection of a bidder other than the initial lowest bidder. The review by OIOS of pertinent documentation showed that the requisitioning offices (the Department of Political Affairs and the Iraq Steering Committee) had attempted to justify their position with arguments relating to the contractor's verification capabilities and the nationality of inspectors. These arguments were subsequently rejected by the Purchase and Transport Division.

42. The two contractors mentioned above were also the lowest bidders for the new contract (contract PD/CO114/00). Of the three proposals submitted, only the one from the contractor who had been awarded the earlier contract (contract PTD/CON/127/065/96) was found to be technically acceptable. According to the minutes of the Headquarters Committee on Contracts meeting, the other proposals lacked direct responsiveness and basic comprehension of the requirements. On the basis of the lowest bid of $5,316,510, contract PD/CO114/00 was awarded to the same contractor who had been selected for the original contract. However, the minutes indicated that the second lowest bidder had proposed a lower cost per expert, although in total its proposal amounted to $6,480,408. In the opinion of OIOS, the lack of correlation between the unit cost per expert and the overall cost proposal in the labour contract is an indication that the request for proposals did not provide sufficient information concerning the volume and conditions of work.

43. *The Office of Central Support Services commented that the request for proposals was very comprehensive and clear as to the requirements of the contract and as to what information, equipment and services the United Nations would provide to the contractor. It further commented that the second lowest bidder had failed to make a clear distinction in the proposed allocation of personnel for the monitoring of oil exports from Iraq and for the in-country monitoring of oil, spare parts and equipment. In the opinion of OIOS, this indicates that further clarification of the proposed allocation of personnel among the monitoring functions was needed in the request for proposals. In view of the experience already developed in this area by the oil-for-food programme, OIOS believes that future bidding exercises for the provision of inspectors should be based on updated specifications, including the appropriate allocation of inspectors among the monitoring functions, thereby providing an equitable basis for the contract award.*

3. Need to ensure that existing requirements are consolidated

44. OIOS noted that the requirements for radio telephone and telephone links for peacekeeping missions had not been consolidated before the bidding exercise was initiated. The Field Administration and Logistics Division raised three such requisitions, in September and October 1999, totalling $1,596,800. Although the first two requisitions were approved in October 1999, the third requisition was retained in the Division until 17 December. In the meantime, the Procurement Division had distributed the invitation to bid for the two requisitions, which had been consolidated. Offers were received from three vendors, which were transmitted to the Division for technical evaluation.

45. There was no documentation showing that the Procurement Division and the Field Administration and Logistics Division had discussed the timing of the three requisitions, and there was no mention in the minutes of the Headquarters Committee on Contracts that the Field Administration and Logistics Division had been aware of other existing requirements before the invitation to bid was issued. In

the view of OIOS, all of the related requisitions should have been disclosed to the Procurement Division, which in turn should have ensured that all existing requirements were consolidated before the invitation to bid was issued.

46. *The Office of Central Support Services commented that the Field Administration and Logistics Division and the Procurement Division were in continuous contact and that issues such as the consolidation of related requisitions were normally discussed. The Office further stated that when the third requisition, discussed in paragraph 42 above, came to the attention of the Procurement Division, it invited the resubmission of bids on account of the higher volume, which resulted in a 5 per cent savings to the Organization. The Field Administration and Logistics Division commented that its first responsibility was to meet the needs of peacekeeping missions that support military deployments, usually in emergency situations. According to the Field Administration and Logistics Division, requirements change rapidly to meet those needs, and it is not always possible to consolidate requirements before issuing invitations to bid.*

G. Supervision and control of low-value purchases

47. The Procurement Division procurement assistants process low-value requisitions, which generally do not exceed $25,000, and approve awards for purchase orders valued at less than $7,500. OIOS reviewed 28 such requisitions with a total estimated value of $535,346. (The total value of all requisitions raised during the period was approximately $17 million.) The value of individual purchase orders corresponding to the requisitions sampled by OIOS ranged from $1,854 to $83,590 and amounted to $405,600 in total. (See annex 2 for a summary of the low-value procurement cases audited.)

48. OIOS noted that in all instances the delegation of authority was complied with. OIOS also found that the procedure for exigency procurement was used only once, and that this case was sufficiently justified. However, the audit also showed that there was no system in place to monitor cases assigned to procurement assistants and, as discussed below, processing times appeared to be excessive in several instances. Although individually, the amounts of these low-value purchase orders may be relatively insignificant as compared with the multimillion-dollar contracts processed by the Procurement Division, when aggregated those purchase orders are material, warranting closer supervision and control.

1. Need to effectively monitor processing turnaround times

49. The processing times for the 28 cases audited by OIOS ranged from 1 to 210 days. Fourteen cases were processed (i.e., the purchase order was issued) within 25 days after receipt of the requisition, which is the standard indicated in the Procurement Manual. OIOS noted that for some of the cases that did not meet the standard processing time, there had been no competition for the purchase orders, which normally should have shortened the process. The cases with the longest turnaround times were as shown in table 4.

Table 4
Cases processed with the longest turnaround times

Case number and description	*Type of bid*	*Processing turnaround time*
S6 (PG6570), $19,975, computer equipment	Request for quotation sent to 40 vendors	Turnaround time: 147 days; a delay of 104 days was attributable to the requisitioning office, which did not amend the requisition or follow up on the processing of the purchase order.
S12 (PG7354), $83,590, voiceware upgrade	No bid (proprietary)	Turnaround time: 142 days; a delay of 73 days was attributable to the requisitioning office, which did not amend the requisition. Another delay occurred because the vendor was not registered.
S24 (PG7050), $14,375, computer equipment	Request for quotation sent to 10 vendors	Turnaround time: 210 days; two amendments were made 2 months and 4 months after receipt of the requisition by the Procurement Division. An additional delay of 100 days was not explained.
S25 (PG7209), $30,316, computer equipment	No bid (part of a systems contract)	Turnaround time: 71 days; the requisition was held up owing to the time needed to finalize the systems contract.

50. There was no evidence showing that Procurement Division supervisors monitored procurement turnaround times. The case files did not contain target completion dates, and although delays were sometimes attributable to the requisitioning office, there was no evidence showing that they were investigated or brought to the attention of higher-level officials. In the opinion of OIOS, formal procedures need to be established to better control and shorten the time frame for processing low-value purchases.

51. *The Office of Central Support Services commented that the allocation of staff resources to deal with client requirements on a priority basis necessarily resulted in some requisitions being delayed. Owing to limitations in the interface of IMIS and the Reality system, it was not possible until recently to effectively monitor purchase requisitions. However, the Office has advised OIOS that a tracking system is now in place and as a result, Procurement Division supervisors and management are able to effectively monitor the progress of requisition processing.*

2. Insufficient competition and utilization of the vendor roster

52. OIOS noted that in many cases awards (including blanket purchase orders) were made for commitments of less than $25,000 at Headquarters without assessing competitive quotations as required by financial rule 110.19 (a). Several of the contracts were awarded to the previous suppliers without competition. These included blanket purchase orders for security detectors (case S10), cellular phones and audio accessories (case S11), photographic products (case S15), medical supplies (case S20), camera system parts and supplies (case S23) and two orders for external printing of cheques (cases S18 and S19). For the blanket purchase orders,

the individual statements of award mentioned only that the award was based on satisfactory previous performance by the vendor, without any other explanation.

53. *In cases S18 and S19, security reasons were cited as the justification for using the same vendor. However, in the opinion of OIOS, even in such cases it is preferable to identify alternative sources to avoid excessive dependence on one particular vendor. In the view of OIOS, the above awards made to previous suppliers without competition were not adequately justified, particularly because in some instances a large number of other prospective vendors were on the roster. The Procurement Division commented that the view of OIOS that alternative suppliers should be identified for small-value items was contrary to present efforts to be more cost-effective. However, OIOS points out that for low-value purchases, financial rule 110.19 (a) requires that an assessment be made of competitive quotations prior to making the award. In addition, the Procurement Manual specifies that the exception to calling for bids for proprietary articles should be used on rare occasions and with strong justification in view of the availability of a number of alternative products and services in the international market.*

IV. Recommendations

54. In order to further improve the Organization's procurement process, OIOS makes the recommendations indicated below.

Recommendation 1

(refer to paras. 12-16)

55. The Assistant Secretary-General for Central Support Services should re-examine the current interpretation of financial rule 110.17 (a) with a view to ensuring that all cases requiring verification by the Headquarters Committee on Contracts are submitted for its review. In this regard, the Procurement Division should study the administrative implications of replacing the calendar year with a period defined as the 12 consecutive months immediately preceding the proposed award as the period of reference under financial rule 110.17 (a) (AH1999/1/3/001).

56. *The Office of Central Support Services accepted this recommendation.*

Recommendation 2

(refer to paras. 17 and 18)

57. In order to make responsible managers more aware of previous awards and help to identify those commodities that should be consolidated under systems contracts, the Procurement Division should examine the feasibility of establishing a procedure to accumulate information on the number and value of contracts awarded to a particular vendor in the 12 months immediately preceding a proposed award (AH1999/1/3/003).

58. *The Office of Central Support Services accepted this recommendation.*

Recommendation 3

(refer to paras. 19 and 20)

59. The Under-Secretary-General for Management should review and approve all formal interpretations of the financial regulations and rules governing procurement activities (AH1999/1/3/002).

60. *The Office of Central Support Services accepted this recommendation, noting that the Under-Secretary-General for Management had actually endorsed the calendar year interpretation of financial rule 110.17 (a) when he promulgated the Procurement Manual in 1998.*

Recommendation 4

(refer to paras. 22 and 23)

61. The Under-Secretary-General for Peacekeeping Operations should ensure that decisions to contract with Governments are made only after determining that the conditions for using letters of assist have been satisfied, and also should ensure that the basis for such decisions is fully documented. The Department should maintain the related documentation for such awards (AH1999/1/3/004).

62. The Field Administration and Logistics Division accepted this recommendation.

Recommendation 5

(refer to paras. 21-26)

63. To ensure that decisions to contract with Governments are fully documented and that the Organization receives full value for its money, the Procurement Division should revise the Procurement Manual to specify the procedures for processing letters of assist, including the use of comparable cost data and the justification of decisions (AH1999/1/3/005).

64. *The Office of Central Support Services and the Field Administration and Logistics Division accepted this recommendation.*

Recommendation 6

(refer to paras. 27 and 28)

65. In order to maximize air transportation vendor participation in bidding for United Nations contracts, the Procurement Division should conduct a market survey of air transportation services available in each region where the United Nations operates and encourage those companies identified to register as prospective vendors (AH1999/1/3/006).

66. *The Office of Central Support Services accepted this recommendation.*

Recommendation 7

(refer to paras. 29-33)

67. The Assistant Secretary-General for Central Support Services, when appropriate, should ensure that recommendations made by the Office of Legal Affairs and the Headquarters Committee on Contracts in compliance with procurement rules and procedures, as in the case of the contract for inspection services under the oil-for-food programme, are fully implemented, thereby minimizing cost inefficiencies. Any exception to that procedure should be fully and explicitly accounted for (AH1999/1/3/007).

68. *The Office of Central Support Services accepted this recommendation.*

Recommendation 8

(refer to paras. 34-38)

69. The Procurement Division and the Field Administration and Logistics Division should ensure that when field conditions are uncertain, invitations to bid for air transportation services should be based on the broadest anticipated range of operational requirements to avoid repeated modification and rebidding as well as the related costs (AH1999/1/3/008).

70. *The Office of Central Support Services and the Field Administration and Logistics Division accepted this recommendation.*

Recommendation 9

(refer to paras. 39-43)

71. To provide an equitable basis for the award of inspection service contracts, the Procurement Division should ensure that the Office of the Iraq Programme provides updated specifications for future bidding exercises regarding the provision of inspection services for the oil-for-food programme. Such specifications should include the overall number of inspectors required, as well as their expected allocation under each monitoring function (AH1999/1/3/009).

72. *The Office of Central Support Services accepted this recommendation.*

Recommendation 10

(refer to paras. 44-46)

73. To ensure that all requirements are consolidated before an invitation to bid is issued, the Procurement Division should instruct the requisitioning offices on the need for providing complete information about approved as well as planned requisitions in order to take full advantage of potential volume discounts (AH1999/1/3/010).

74. *The Office of Central Support Services agreed, noting that this recommendation had already been implemented to the extent possible.*

Recommendation 11

(refer to paras. 49-51)

75. To enhance the management of low-value purchases, the Procurement Division should ensure that the assignments given to procurement assistants include target completion dates based on performance indicators determined for each commodity. Major departures from target dates should be approved by the supervisor, and cases requiring action by the requisitioning offices should be followed up in a timely manner (AH1999/1/3/011).

76. *The Office of Central Support Services accepted this recommendation.*

Recommendation 12

(refer to paras. 52 and 53)

77. The Procurement Division should ensure that in the future the selection of vendors for purchases of less than $25,000 is based on an assessment of competitive quotations as required by financial rule 110.19 (a), using the vendor roster to the extent possible (AH1999/1/3/012).

78. *The Office of Central Support Services accepted this recommendation.*

79. OIOS received detailed comments on a draft of the present report from the Assistant Secretary-General for Central Support Services, the Department of Management, the Director of the Field Administration and Logistics Division, the Department of Peacekeeping Operations and the Office of the Iraq Programme. The report has been revised, where appropriate to reflect those comments, which are printed in italic type.

(*Signed*) Dileep **Nair**
Under-Secretary-General
Office of Internal Oversight Services

Annex I

Summary of high-value procurement cases

Case number	Reference	Commodity	Contract type	Bid type	Number of invitees	Contract amount (United States dollars)	Turnaround time (days)
L1	SYS-PD/CO483/99	Microcomputers	System contract	Invitation to bid	21	488 215	
	PG7245-RQSN8498					139 490	
	PG7134-RQSN8149					278 980	135
	PG7259-RQSN8199						
L2	SYS-PD/CO482/99	Computer services	System contract	Invitation to bid	21	344 500	
	PG7135-RQSN8149					1 378 000	150
	PG6979-RQSN8199						
L3	SYS-PD/CO209/98	Vehicles	System contract	Request for proposals	23	4 225 694	165
	PG6722-RQSN8015						
L4	SYS-PD/CO347/99	Vehicles	System contract	Request for proposals	3	2 137 500	150
	PG6756-RQSN8017						
L5	PD/CO428/99	Air charter, MINURCA	Long-term	Invitation to bid	20	385 800	90
	PS3426-RSQN4126						
L6	PD/CO373/99	Air charter, UNOMIG	Long-term	Invitation to bid	14	402 152	105
	PS3061-RSQN4478						
L7	PD/CO445/99	Air charter, UNMIK	Long-term	Invitation to bid	27	7 067 600	45
	PS3452-RSQN4368						
L8	PD/CO494/99	Air charter, MINURCA	Short-term	Invitation to bid	3	98 679	16
	PS3620-RSQN4667						
L9	PD/CO510/99	Air charter, UNAMSIL	Short-term	Invitation to bid	46	1 077 650	30
	PS3877-RSQN4810						Invitation to bid
L10	PD/CO444/99	Air charter, UNMIK	Short-term	Invitation to bid	22	291 495	prior to requisition
	PS3470-RSQN4483						
L11	PD/CO484/99	Air charter, UNAMET	Short-term	Invitation to bid	20	1 251 500	22
	PS3661-RSQN4657						
L12	PD/CO502/99	Air charter, UNAMSIL	Long-term	Invitation to bid	46	1 084 022	20
	PS3936-RSQN4810						
L13	PD/CO523/99	Air charter, UNTAET	Long-term	Invitation to bid	28	4 106 000	108
	RSQN4874						
L14	PD/CO525/99	Air charter, UNAMSIL	Short-term letter of assist	No bid/reference to requisition 5032	28	16 410 000	45
L15	ARGENTINA/UNFICYP/ 2000-21	Air charter, UNFICYP			Not applicable	570 000	Not applicable

Case number	Reference	Commodity	Contract type	Bid type	Number of invitees	Contract amount (United States dollars)	Turnaround time (days)
L16	GHANA/UNIFIL/ 2000-18	Air charter, UNIFIL	Short-term letter of assist	No bid/reference to requisition 5032	Not applicable	360 000	Not applicable
L17	PD/CON324/98 PS3403-RSQN4464	Inspection services Goods, Office of the Iraq Programme	Contract	Invitation to bid	13	16 238 090	Not available
L17b	PTD/127/0085/96			Not applicable	2	25 366 863	Not available
L18	PTD/CON127/065/96 PS3047-RSQN4556 & RSQN4824	Inspection services Oil, Office of the Iraq Programme	Contract	Request for proposals	8	15 490 576	67
L18b	PD/CO114/00			Request for proposals	26	5 316 510	Not available
L19	PD/CO049/00	Labour contract	Contract	Request for proposals	60	7 858 764	Not available
L20	PD/CO398/99 PG6867-RQSN7709 & RQSN8135	Telecommunication equipment	Contract	Request for proposals	30	1 232 000	215
L21	PG7624-RQSN8037 PS7624-RQSN8348 PS7625-RQSN8407	Telecommunication equipment	Contract	Request for proposals	36	1 888 910	120
	Total					**115 488 990**	

Acronyms: MINURCA, United Nations Mission in the Central African Republic; UNOMIG, United Nations Observer Mission in Georgia; UNMIK, United Nations Interim Administration Mission in Kosovo; UNAMSIL, United Nations Mission in Sierra Leone; UNAMET, United Nations Mission in East Timor; UNTAET, United Nations Transitional Administration in East Timor; UNFICYP, United Nations Peacekeeping Force in Cyprus; UNIFIL, United Nations Interim Force in Lebanon.

Annex II

Summary of low-value procurement cases

Case number	Reference	Commodity	Contract type	Bid type	Number of invitees	Contract amount (United States dollars)	Turnaround time (days)
S1	PG6604-RQSN7730	Projection screen	Purchase order	Request for quotation	12	4 422	27
S2	PG5700-RQSN6560	Computer software	Purchase order	No bid/proprietary	Not applicable	22 848	22
S3	PG4098-RSQN5029	Cleaning supplies	Purchase order	Request for quotation	3	1 944	25
S4	PG4193-RQSN5028. 5030 & 5031	Stamp mounts, 1998 flag series	Purchase order	Request for quotation	9	8 744 4 000	56
S5	PS3049-RQSN3597	File missing					
S6	PG6570-RQSN7760	Computer equipment	Purchase order	Request for quotation	40	19 975	147
S7	PG6746-RQSN7782	Computer equipment	Purchase order	Request for quotation	13	14 625	23
S8	PG6770-RQSN7970	Computer equipment	Purchase order	Same as S7	Not applicable	28 800	19
S9	BP00529-BPQN638	Cellular phones	Blanket purchase order	No bid/proprietary	Not applicable	10 000	55
S10	BP00582-BPQN704	Detector	Blanket purchase order	No bid/previous supplier	Not applicable	10 000	39
S11	BP00628-BPQN724	Cellular phones Audio accessories	Blanket purchase order	No bid/previous supplier	Not applicable	10 000	25
S12	PG7354-RQSN7477	Voiceware upgrade	Purchase order	No bid/proprietary	Not applicable	83 590	142
S13	PS2872-RQSN3766	Leasing services	Purchase order	No bid/proprietary	Not applicable	9 590	1
S14	No PO - RQSN5200	Maintenance for back-up system	Not registered vendor/no purchase order	No bid required	Not applicable	24 432	3
S15	BP0499-BPQN620	Photographic products	Blanket purchase order	No bid/previous supplier	Not applicable	15 000	13
S16	PG2839-RQSN3776	United Nations security uniforms	Purchase order	No bid/previous supplier	Not applicable	3 093	28
S17	PG7158-RQSN8561	Generator	Purchase order	No bid/exigency	Not applicable	57 550	8
S18	PS3000-RSQN3902	External printing of cheques	Purchase order	No bid/previous supplier	Not applicable	1 854	41
S19	PS3138-RSQN4119	External printing of cheques	Purchase order	No bid/previous supplier	Not applicable	5 968	13
S20	BP00615-BPQN759	Medical supplies	Blanket purchase order	No bid/no reason mentioned	Not applicable	15 000	19

Case number	Reference	Commodity	Contract type	Bid type	Number of invitees	Contract amount (United States dollars)	Turnaround time (days)
S21	PS2847-RSQN3795	Household expenses	Purchase order	No bid required	Not applicable	15 000	30
S22	PS3105-RSQN4110	Real estate services	Purchase order	No bid required	Not applicable	29 165	12
S23	BP004525-BPQN560	Parts and supplies for camera system	Blanket purchase order	No bid/previous supplier	Not applicable	10 000	1
S24	PG7050-RQSN7494	Computers	Purchase order	Request for quotation	10	14 375	210
S25	PG7209-RQSN8245	Computers	Purchase order	System contract	Not applicable	30 316	71
S26	PG8049-RQSN8856	Data communication	Purchase order	No bid/proprietary	Not applicable	51 220	31
S27	PG6279-RQSN7207	Video system	Purchase order	No bid/proprietary	Not applicable	28 820	29
S28	PG7640-RQSN8787	Computers	Purchase order	Request for quotation	8	19 128	17
	Total					**405 600**	

United Nations A/55/746*

General Assembly

Distr.: General
7 March 2001

Original: English

Fifty-fifth session
Agenda items 116 and 126

Review of the efficiency of the administrative and financial functioning of the United Nations

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Follow-up audit of the implementation of procurement reform

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994 and 54/244 of 23 December 1999, the Secretary-General has the honour to transmit for the attention of the Assembly the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the follow-up audit of the implementation of procurement reform.

2. The Secretary-General is pleased to note the progress made in the procurement reform efforts and that the Office of Central Support Services, Department of Management, has satisfactorily implemented most of the previous audit recommendations of the Office of Internal Oversight Services. The Secretary-General takes note of the findings and concurs with the recommendations made in the present report, which aim at improving the United Nations procurement process.

* Reissued for technical reasons.

01-22813* (E) 080301

Report of the Office of Internal Oversight Services on the follow-up audit of the implementation of procurement reform

Summary

The United Nations procurement reform process was initiated in 1994 with a study by the High-level Group of Experts on Procurement. In 1997 the Office of Internal Oversight Services (OIOS) reviewed the status of procurement reform and in 1988 it presented its conclusions to the General Assembly (A/52/813). The second follow-up audit of procurement reform was intended primarily to verify that the recommendations formulated by the expert group and by various oversight bodies had been satisfactorily implemented and to identify procurement areas requiring further improvement as well as any new issues that may have developed. The audit was carried out at United Nations Headquarters from November 1999 to May 2000 and included a review of 51 procurement cases processed by the Procurement Division valued at $116 million.

The goods and services procured by United Nations Headquarters, offices away from Headquarters and peacekeeping missions in 1998 and 1999 amounted to $318 million and $468 million respectively. The significant increase in 1999 largely reflected the increased requirements of peacekeeping missions. During 1999, the Procurement Division carried out 81 per cent of all procurement activities on behalf of Headquarters and field offices, which totalled $378 million.

Status of procurement reform

OIOS found that management had expeditiously and satisfactorily implemented most of its recommendations contained in its March 1998 report (A/52/813). OIOS further noted that the Procurement Division had improved the request for proposal procedure and streamlined the documentation presented to the Headquarters Committee on Contracts. Also, the Division had encouraged the participation of developing countries in the United Nations procurement process through informational seminars organized in 1999 and 2000. OIOS concluded that overall there had been a significant improvement in the systems and procedures used by the Division during the period. Several members of the Fifth Committee, the Advisory Committee on Administrative and Budgetary Questions and the Special Committee on Peacekeeping also commented on the positive developments in the procurement process.

Review of procurement cases and procedures

OIOS found that there was a need for further improvement of the United Nations procurement system, which should be considered in the context of the ongoing procurement reform process. In this regard, OIOS noted that the following issues needed to be resolved.

In accordance with financial rule 110.17 (a), any contract to be entered into with a single contractor in respect of a single requisition or a series of related requisitions that exceed $200,000 should be submitted to the Headquarters Committee on Contracts for review. The Procurement Manual establishes the period

of reference for this rule as a calendar year (January-December). OIOS believes that using the calendar year as the period of reference may create a gap in the application of the Headquarters Committee on Contracts control mechanism. For example, two related requisitions totalling more than $200,000 but submitted on 31 December of a given year and 1 January of the following year would not have to be submitted to the Headquarters Committee on Contracts for review. OIOS believes that this situation would not occur if the period of reference were instead the 12-month period immediately preceding the award. Therefore, the current interpretation of financial rule 110.17 (a) needs to be re-examined with a view to ensuring that all cases requiring verification by the Headquarters Committee on Contracts are submitted for its review.

The Headquarters Committee on Contracts had been instrumental in proposing the current interpretation of financial rule 110.17 (a). However, in the view of OIOS, any proposed interpretation or modification of the rules governing procurement activities should be formally initiated and transmitted by the Assistant Secretary-General for Central Support Services to the Under-Secretary-General for Management for review and approval.

Decisions to procure air transport services through letters of assist with Governments rather than commercial carriers were not adequately documented and were taken unilaterally by the Department of Peacekeeping Operations. In the view of OIOS, this presented a risk that the conditions for using letters of assist may not have been met.

Despite the Procurement Division's sustained efforts to increase vendor participation in bidding for air transportation services contracts, this participation was still limited. Although up to 46 vendors had been invited to bid in some cases, generally no more than 6 responses were received. There is a need for the Procurement Division to seek feedback from vendors who did not respond to invitations to bid and, on this basis, to develop additional strategies to further encourage prospective carriers to participate in bidding for air transportation services contracts.

OIOS noted that the Headquarters Committee on Contracts recommendation to rebid a contract for the provision of inspection services under the oil-for-food programme in Iraq was not implemented in a timely manner. OIOS also found that the terms of this contract did not adequately protect the Organization's interests and resulted in questionable charges for deployment and travel.

The OIOS review showed that the Procurement Division did not adequately monitor low-value procurement cases assigned to procurement assistants and that procurement processing times for some of those cases appeared excessive. In some instances delays exceeded 100 days.

OIOS made a number of recommendations to further improve the procurement process, which included the following:

(a) The Assistant Secretary-General for Central Support Services should re-examine the current interpretation of financial rule 110.17 (a) with a view to ensuring that all cases requiring verification by the Headquarters Committee on Contracts are submitted for its review. In this regard, the Procurement Division should review the administrative implications of changing the period of reference under financial rule 110.17 (a) from the calendar year to a period defined as the 12 consecutive months immediately preceding the proposed award;

(b) The Under-Secretary-General for Management should review and approve all formal interpretations of the financial regulations and rules governing procurement activities;

(c) The Under-Secretary-General for Peacekeeping Operations should ensure that decisions to contract with Governments are made only after determining that the conditions for using letters of assist have been met and that the basis for those decisions is fully documented;

(d) The Assistant Secretary-General for Central Support Services, when appropriate, should ensure that recommendations made by the Office of Legal Affairs and the Headquarters Committee on Contracts concerning procurement matters are fully implemented. Decisions not to accept such recommendations should be properly documented;

(e) The Procurement Division should:

(i) Conduct a market survey of available air transportation services contractors in each region where the United Nations operates and encourage the companies so identified to register as prospective vendors, thereby maximizing air transportation vendor participation in the bidding for contracts;

(ii) Ensure that the assignments given to procurement assistants include target completion dates, that major departures from target dates are approved by supervisors and that cases requiring action by the requisitioning offices are followed up in a timely manner, thereby enhancing the management of low-value purchases.

Detailed comments on a draft of the present report were received from the Office of the Iraq Programme as well as the relevant offices within the Department of Management and the Department of Peacekeeping Operations. The report has been revised, where appropriate, to reflect those comments, which are printed in italic type.

Contents

Chapter		*Paragraphs*	*Page*
I.	Introduction	1–6	6
II.	Status of procurement reform	7–11	7
	A. Implementation of recommendations on procurement reform	7	7
	B. Other recent improvements made by the Procurement Division	8–11	9
III.	Review of procurement cases and procedures	12–53	10
	A. Review of financial rules and procedures governing the submission of cases to the Headquarters Committee on Contracts	12–18	10
	B. Need to clarify the authority for interpreting financial rules	19–20	12
	C. Using letters of assist	21–26	12
	D. Limited air transportation vendor participation in the bidding process	27–28	14
	E. Recommendations made by the Office of Legal Affairs and the Headquarters Committee on Contracts regarding the procurement of inspection services not implemented in a timely manner	29–33	15
	F. Determination and formulation of requirements	34–46	16
	G. Supervision and control of low-value purchases	47–53	19
IV.	Recommendations	54–79	21
Annexes			
I.	Summary of high-value procurement cases		25
II.	Summary of low-value procurement cases		27

I. Introduction

1. Pursuant to General Assembly resolution 49/216 C of 23 December 1994, the Secretary-General submitted a report on the establishment of a transparent and effective system of accountability and responsibility (A/C.5/49/1). In that report, the Secretary-General informed the Assembly that the procurement process and related management issues at Headquarters and in the field would be reviewed by an independent group of experts drawn from Member States.

2. The main areas covered by the High-level Group of Experts on Procurement included the United Nations Financial Regulations and Rules governing procurement; the requisition, bid evaluation and vendor registration processes; the use of letters of assist; the procurement authority delegated to field missions; and the existing control mechanisms. The Group's report was submitted to the steering committee in late December 1994.

3. In 1997, the Office of Internal Oversight Services (OIOS) reviewed the status of and the progress made in implementing the recommendations of the Group of Experts and in March 1998 submitted its findings and recommendations (A/52/813).

4. The current OIOS follow-up audit of procurement reform was conducted from November 1999 to May 2000. The objectives of the audit were to verify the effective implementation of the recommendations formulated by the Group of Experts and by various oversight bodies, including OIOS and the Board of Auditors. In addition, the audit aimed at identifying procurement areas requiring further improvement and any new issues that might have developed. The scope of the audit included a review of relevant United Nations financial regulations and rules; Headquarters Committee on Contracts activities; the use of letters of assist; requisitioning and bid evaluation; vendor roster maintenance; and control of low-value purchases. The audit included a review of 51 procurement cases processed by the Procurement Division, primarily during 1999 and 2000, amounting to almost $116 million. It should also be noted that while OIOS was completing its review, the Secretary-General submitted his report on procurement reform (A/55/127) to the General Assembly.

5. Goods and services procured by the Organization in 1998 and 1999 amounted to $318 and $468 million respectively. The significant increase in 1999 to a large extent reflected the requirements of new peacekeeping missio The Procurement Division carried out the major part of these procurement activities from Headquarters, as shown in table 1.

Table 1
United Nations procurement activities during 1999

Procurement activities	*Number*	*Value (United States dollars)*	*Percentage*
Procurement Division purchases			
For Headquarters and offices away from Headquarters	2 819	188 083 225	40
For peacekeeping missions	829	189 861 829	41
Total, Procurement Division	**3 648**	**377 945 054**	**81**

Procurement activities	*Number*	*Value (United States dollars)*	*Percentage*
Purchases made locally by peacekeeping missions	9 454	90 109 000	19
Total procurement in 1999	**13 102**	**468 054 054**	**100**

6. Table 2 provides additional details concerning the procurement cases reviewed by OIOS. The audit focused on air transportation services and telecommunication equipment and services, two commodities in high demand during recent years, and on inspection services, which recently became a requirement with the development of the Organization's oil-for-food programme.

Table 2
Procurement cases reviewed by the Office of Internal Oversight Services

Commodity	*Number of cases reviewed*	*Total value of cases reviewed (United States dollars)*	*Processing period*
High-value cases			
Inspection services	4	62 412 039	1996-2000
Air transportation services	12	33 104 898	1999-2000
Telecommunication equipment and services	3	10 979 674	1999-2000
Motor vehicles	2	6 363 194	1998-1999
Electronic data processing equipment and maintenance services	2	2 629 185	1999
Total	**23**	**115 488 990**	
Low-value cases			
Various commodities	28	405 600	1999-2000
Total cases reviewed	**51**	**115 894 590**	

II. Status of procurement reform

A. Implementation of recommendations on procurement reform

7. In its 1997 review, OIOS concluded that the procurement reform process was well under way, as demonstrated by such improvements as the reorganization of the Procurement Division, the finalization of procurement guidelines and the adjustment of delegated procurement thresholds. The previous OIOS recommendations addressed weaknesses in such areas as planning, exceptions to the requirement for obtaining bids and proposals, the training of field mission procurement officers and the reliability of the vendor roster. Generally, the Office of Central Support Services had implemented these recommendations satisfactorily, as shown in table 3.

Table 3
Status of the implementation of previous recommendations of the Office of Internal Oversight Services

Number	*Recommendations*	*Status of implementation as at May 2000*
AM97/71/4/01	Management should consider making use of the procurement and contract administration services offered by the United Nations Office for Project Services (UNOPS) for development projects.	Pending further assessment of the financial implications of utilizing the services of UNOPS
AM97/71/4/02	Financial rule 110.5 should be interpreted to permit the initiation of procurement actions pending the allocation of funds, and financial rule 110.6, as well as the memorandum of understanding dated January 1995 between the Controller and the Under-Secretary-General for Peacekeeping Operations, should be applied in cases where a financial commitment is operationally necessary prior to budget approval.	Implemented
AM97/71/4/03	Financial rules 110.19(f) and (g) should no longer be used as a basis for granting exceptions to calling for bids and proposals for the procurement of professional services, medicines and medical supplies. Financial rule 110.19(h) should be used in exceptional cases if bidding would not yield satisfactory results.	Implemented
AM97/71/4/04	The draft procurement manual should be reviewed, finalized and issued in a timely manner.	Implemented
AM97/71/4/05	Training needs should be identified and a formal procurement-specific training programme developed in cooperation with the Office of Human Resources Management.	Implemented
AM97/71/4/06	Procurement officers should be rotated between Headquarters and field missions to improve the overall qualifications of the procurement staff.	Ongoing: rotation procedures have been developed
AM97/71/4/07	Procurement authority should be delegated at the start of a field mission, and financial limits should reflect the mission's procurement needs and ability to manage this responsibility.	Implemented
AM97/71/4/08	Better use should be made of existing management information capabilities, and databases should be properly maintained.	Ongoing: the vendor roster for air transportation services is being refined
AM97/71/4/09	Vendor registration procedures should be enhanced to ensure that the vendor roster is reliable.	Implemented
AM97/71/4/10	The Procurement Division should report on progress made in respect of systems contracts.	Implemented
AM97/71/4/11	Requisitioning departments, in cooperation with the Procurement Division, should develop and submit annual procurement plans.	Implemented

B. Other recent improvements made by the Procurement Division

1. Improvement of the request for proposal procedure

8. In April 1999 the Procurement Division revised the procedures used for procurement involving requests for proposals. This revision, which took effect on 1 May 1999, was made after the Fifth Committee had identified the need for more transparency and objectivity in the Organization's procurement process and expressed its preference for the use of invitations to bid rather than requests for proposals. The Committee noted that the requests for proposals procedure was based too extensively on subjective determinations. The major innovation of the revised requests for proposals procedure was that vendors were required to submit their proposals in two separate, sealed parts — a technical proposal and a pricing proposal. In order to increase the objectivity of the technical evaluation, only the technical proposal is now transmitted to the requisitioning office.

2. Streamlining the documentation submitted to the Headquarters Committee on Contracts

9. The Procurement Division has streamlined the documentation related to cases submitted to the Headquarters Committee on Contracts for review. Previously, procurement officers were required to attach all documentation relevant to a submission and to repeat information already in the attachments in their summary presentations. To address this duplication issue, in February 2000 the Division proposed to the Committee the use of a standard form to summarize the case and to record the Committee's recommendation as well as the approval certification of the Assistant Secretary-General for Central Support Services.

3. Increased communication with permanent missions to widen the geographical base of the supplier roster

10. In his report on procurement reform (A/52/534 and Corr.1) the Secretary-General indicated that concerted efforts were being made, with the assistance of permanent and observer missions to the United Nations, to widen the geographical base of the supplier roster. OIOS noted that the Procurement Division attached great importance to communicating with the permanent missions of Member States. Several initiatives were undertaken in 1999 and 2000 aimed at informing permanent missions about the Organization's procurement activities and procedures and stimulating the participation of developing countries. However, OIOS noted that the two information sessions organized by the Division in 1999, which were specifically targeted to the permanent missions of developing countries, were not well-attended.

4. Other improvements

11. In commenting on the draft report, the Office of Central Support Services identified a number of other recent improvements in the procurement process. For example, the bidding process had been improved by ensuring that evaluation criteria and the weighting of each criterion were agreed to by the requisitioning office before the tenders were invited. Another development involved the Procurement Division's creation of a consolidated tracking system, which has enhanced the monitoring of requisitions and the performance of buyers. This tracking mechanism has since been added to the Intranet to allow direct monitoring of the status of

requisitions by the issuing offices. The Division has recently overhauled its Intranet site to enhance transparency and institute greater accountability. The Division's Internet site seeks to serve the special needs of vendors, particularly those from developing countries. This web site also provides a free advertisement facility for those vendors to promote their goods and services. Several members of the Fifth Committee, the Advisory Committee on Administrative and Budgetary Questions and the Special Committee on Peacekeeping made laudatory comments on the positive developments in the procurement process.

III. Review of procurement cases and procedures

A. Review of financial rules and procedures governing the submission of cases to the Headquarters Committee on Contracts

1. Financial rule 110.17(a) needs to be clarified

12. According to financial rule 110.17(a), any contract to be entered into with a single contractor in respect of a single requisition or a series of related requisitions that exceeds $200,000 should be submitted to the Headquarters Committee on Contracts for review. OIOS noted that the Procurement Manual further specified that such series of related requisitions should be submitted to the Headquarters Committee on Contracts if they are received and processed in a calendar year, which is not stipulated in financial rule 110.17(a). The Procurement Manual therefore requires the Procurement Division: (a) to accumulate related requisitions received and processed in a calendar year, and (b) submit them to the Headquarters Committee on Contracts when the $200,000 threshold is exceeded. This procedure reduces the risk that requisitions may be split to avoid the Committee's review.

13. The Procurement Manual establishes the period of reference for financial rule 110.17(a) as a calendar year (January-December). As a result, two related requisitions totalling more than $200,000, submitted on 31 December of a given year and 1 January of the following year respectively, would not have to be submitted to the Headquarters Committee on Contracts for review. Using the calendar year as the period of reference creates gaps in the Committee's verification because awards made to the same vendor in different calendar years (but within a 12-month period) would not be taken into account and the related case would not be submitted to the Committee. In the view of OIOS, using the 12-month period immediately preceding the proposed award as the period of reference under financial rule 110.17(a) would reduce the inappropriate splitting of requisitions and would further enhance the consolidation of purchases.

14. OIOS also noted that the Headquarters Committee on Contracts did not consider proposed awards for air transportation services from the same vendor as being related. Consequently, proposed awards for air transportation services of less than $200,000 were not submitted to the Headquarters Committee on Contracts even though the aggregated awards to a particular vendor exceeded $200,000 during the year. For example, case L8 (PD/CO494/99, short-term services, valued at $98,769) was not submitted to the Committee, even though the vendor had received 25 awards for a total value of $4.7 million in 1999. The same vendor also received 14 awards totalling $4.9 million during the period from 1 January to 3 May 2000. In the opinion of OIOS, proposed awards to the same vendor for air transportation services

should also be considered related for purposes of submission to the Headquarters Committee on Contracts whenever they exceed the applicable threshold. This would allow the Committee to assess whether each award was independently justified and whether repeated awards to a single vendor were based on sufficient competition.

15. *The Office of Central Support Services commented that changing the interpretation of the period of reference in financial rule 110.17(a) to 12 months instead of a calendar year would only replace the risk of not considering requisitions placed in December and January respectively with the risk of not considering requisitions placed in months 12 and 13.* However, OIOS points out that its recommendation involves replacing the calendar year with the 12-month period immediately preceding the proposed award, which would allow for consideration of the most recent requisitions in all cases.

16. *The Field Administration and Logistics Division of the Department of Peacekeeping Operations commented that it was concerned about the application of financial rule 110.17(a) and its interpretation because of the different budget cycles and mandates of peacekeeping missions. The Division further indicated that it would not oppose replacing the calendar year with a rolling 12-month period, but that it would need explicit guidance on the criteria for reporting cumulative awards to a vendor over a fixed period of time. The Division also suggested that the rule should not be applied to the procurement of goods and services such as real estate, freight handling or other commodities for which there may be only one viable source in the mission area.* However, OIOS does not believe that sole sourcing should serve as the basis for an exemption from the review of the Headquarters Committee on Contracts.

2. Need for a procedure to accumulate individual awards to the same vendor

17. Currently, the Procurement Division does not take into account information on the number and value of previous contracts awarded to a vendor during the previous 12 months or the commodities covered by those contracts. In the opinion of OIOS, the use of such information would make Procurement Division managers more aware of recent awards to a particular vendor and help them to identify those commodities that should be consolidated under systems contracts, thereby reducing the number of individual requisitions to be processed. For example, in cases S16 and S24, the vendors received 31 and 77 purchase orders respectively in 1999. In the opinion of OIOS, the Procurement Division should have considered consolidating the corresponding requirements under blanket purchase orders. Moreover, given that the volume of business awarded to the vendors in 1999 totalled $271,787 and $255,535 respectively, cases S16 and S24 should have been submitted to the Headquarters Committee on Contracts for review. *The Procurement Division commented that cumulative financial data on contract awards were readily available in the Reality system and the Integrated Management Information System (IMIS).* OIOS is of the opinion that the Procurement Division should use those data to forecast requirements for goods and services and to negotiate the best available terms and conditions with vendors.

18. *The Procurement Division further indicated that maintaining separate and distinct statistical time periods for each contractor would be administratively onerous and would not add value to the process. The Division added that both the Headquarters Committee on Contracts and the Division believed that knowledge of*

previous unrelated awards to the same vendor might adversely affect their objectivity in evaluating bids. This is true because each invitation to bid should be judged on its own merit for the purpose of determining the lowest acceptable bid for a particular transaction. Knowledge of previous unrelated awards is not pertinent to making such a determination. However, in the view of OIOS, it should be possible to establish efficient procedures for accumulating individual awards to the same vendor using the Reality system. As mentioned above, OIOS believes that information on previous awards to a vendor is needed for Procurement Division management to identify commodities that should be consolidated under systems contracts, including blanket purchase orders, and to effectively monitor procurement activities resulting in several awards to the same vendor. *However, the Procurement Division emphasized that any consolidation of purchases should be based on projections from the annual planning exercise rather than on information based on historical experience.*

B. Need to clarify the authority for interpreting financial rules

19. A memorandum dated 9 March 1994 from the Chairman of the Headquarters Committee on Contracts to the Director, Office of General Services, recommended that financial rule 110.17(a)(ii) be interpreted as considering a series of related requisitions within a *calendar year* to determine whether the threshold had been reached. The Chairman of the Headquarters Committee on Contracts went on to propose that the same criteria be used to calculate the varying thresholds at other duty stations and at peacekeeping missions. Subsequently, the Procurement Manual was revised to specify that any series of requisitions received and processed in a calendar year should be submitted to the Headquarters Committee on Contracts for review. However, the formulation of financial rule 110.17(a)(ii) remained unchanged. As indicated above, OIOS believes that using the calendar year as the period of reference for the submission of proposed awards to the Headquarters Committee on Contracts may create a gap in the application of the Committee's control mechanism.

20. OIOS notes that the authority delegated to the Headquarters Committee on Contracts does not include interpreting financial rules pertaining to procurement. Any proposed interpretation or modification of the rules should be formally initiated and transmitted by the Assistant Secretary-General for Central Support Services to the Under-Secretary-General for Management for review and approval. *The Office of Central Support Services commented that the question of defining the period for applying financial rule 100.17(a) was an interpretation that did not require revision of the rule.* Nonetheless, OIOS believes that the Under-Secretary-General for Management needs to clarify the procedures for interpreting the financial rules.

C. Using letters of assist

21. According to the revised Procurement Manual, a letter of assist is a contracting document issued by the United Nations to a Government authorizing the Government to provide goods and services to a United Nations peacekeeping operation. This method of procurement is the responsibility of the Director, Field Administration and Logistics Division of the Department of Peacekeeping Operations. The letter of assist is reviewed by the Headquarters Committee on

Contracts and approved by the Assistant Secretary-General for Central Support Services. OIOS reviewed two recent letter of assist cases relating to air transportation services: L15 (Argentina/United Nations Peacekeeping Force in Cyprus/2000-21, short-term services for $570,000) and L16 (Ghana/United Nations Interim Force in Lebanon/2000-18, short-term services for $360,000). This review identified several issues, which are discussed below.

1. Need for increased justification of decisions to contract with Governments for the provision of air transportation services

22. OIOS found that there was insufficient written justification for decisions to use government services through letters of assist rather than commercial air transportation carriers. Field Administration and Logistics Division officials advised that, in practice, the Division decided unilaterally to propose contracts with Governments rather than to use commercial carriers. In the opinion of OIOS, this practice presents a risk that the prerequisite conditions for using letters of assist might not be met. This was particularly true in case L16, where the Government intended to provide the transportation through a commercial carrier. In the opinion of OIOS, it would have been preferable to encourage this carrier to participate in the invitation to bid issued by the Procurement Division, thereby providing assurance that its proposal, if accepted, would satisfy the Organization's safety and performance requirements.

23. *The Field Administration and Logistics Division commented that it provided copies of the Headquarters Committee on Contracts presentations to the Procurement Division for information purposes and that those presentations contained the justification for the letters of assist. They further emphasized that letters of assist were used to meet military requirements and could not be compared with standard contractual arrangements.* OIOS nevertheless believes that there is a need for explicit written confirmation by the Field Administration and Logistics Division that the conditions for using letters of assist have been satisfied before decisions are made to contract with Governments.

2. Liability under letters of assist

24. The presentation by the Field Administration and Logistics Division of cases L15 and L16 to the Headquarters Committee on Contracts did not indicate whether the air transportation services offered by the Governments complied with standard United Nations requirements. OIOS found that letters of assist for air transportation services had been awarded without a sufficient assessment of whether they provided the same level of protection as commercial contracts, in terms of the Organization's liability for injuries or death of troops transported and damages. While recommending the awards in cases L15 and L16, the Headquarters Committee on Contracts pointed out the possible vulnerability of the Organization under the letters of assist procedure. The Headquarters Committee on Contracts further indicated that the liability for personal injuries or death of the troops transported could be greater under letters of assist than with commercial carriers. Although the United Nations master aviation policy, which provides excess liability coverage, applies to letters of assist, the coverage extends only to third parties, who are defined as persons other than United Nations employees, agents or military personnel.

25. Moreover, the Headquarters Committee on Contracts noted that there was an unresolved issue as to whether liabilities, as opposed to direct costs or payments, were to be taken into account in the first instance in determining whether the letters of assist was more expensive. In this regard, section 15.02.01 of the Procurement Manual stipulates that a letter of agreement may be issued provided that it is not more expensive than the cost that would be borne by the Organization if it contracted commercially for such services.

26. *The Field Administration and Logistics Division stated that as part of the letter of assist negotiation process it now required Member States to provide copies of the same documents that were required from commercial carriers in response to invitations to bid. This permits the Division to ensure that Member States have taken out passenger insurance coverage equal to or greater than the compensation limits set by the General Assembly in its resolution on claims for death and disability.*

D. Limited air transportation vendor participation in the bidding process

27. On 16 February 1999, the Headquarters Committee on Contracts urged the Procurement of Division to expand the supplier roster and to increase the participation of regional air transportation service suppliers in the bidding process. OIOS found that despite the Division's sustained efforts to increase vendor participation in bidding for air transportation services, this participation was still limited. For example, only 18 different vendors participated in the 10 cases reviewed by OIOS. Furthermore, although as many as 46 vendors had been invited to bid on the cases, generally no more than 6 responses were received. In response to the suggestion of the Headquarters Committee on Contracts for expanding the roster, the Procurement Division replied that no other regional carriers were registered with the Organization for the required types of aircraft. In the view of OIOS, the Division needs to conduct market surveys in each region in which the United Nations operates and on that basis to develop additional strategies to encourage other prospective air transportation vendors for solicitation.

28. *The Procurement Division commented that competition was generated from the number of vendors solicited rather than the number of responses received. There were various reasons why vendors did not respond to bid solicitations. These included unavailability of aircraft and vendors' awareness that their bids would be above the present market level. Moreover, the Division had made great efforts to encourage legitimate air transportation vendors to register. Since April 1999, the Division had invited all vendors on the roster to bid and had discontinued the practice of inviting only short-listed vendors. In addition, it had conducted business seminars in Member States and at the United Nations Secretariat. It further stated that although its outreach programme would continue, the opportunities available for United Nations air transportation business were already well-known to the commercial aviation community and that the level of responsiveness was unlikely to increase.* OIOS, however, believes that every effort should be made to maximize vendor participation in the bidding process. This would include conducting market surveys to identify prospective air transportation vendors, obtaining feedback from invited carriers as to why they did not submit bids and using this information to encourage further vendor participation.

E. Recommendations made by the Office of Legal Affairs and the Headquarters Committee on Contracts regarding the procurement of inspection services not implemented in a timely manner

29. OIOS reviewed case L17 (contract PD/CON/324/98) — the bidding exercise for the provision of independent agents to inspect humanitarian and other goods in Iraq for the oil-for-food programme. The original contract amount was $4,877,226 for the period from 1 February to 31 July 1999. Three amendments increased the cost of the contract to $16,238,090. The last of these amendments covered the period between 1 February and 31 July 2000. This contract was the second awarded by the Organization for those services. OIOS found that, compared with the preceding bid for the same inspection services, improvements had been made in the quality of the request for proposals and in the contract's formulation. The new contract was also more cost-effective than the previous one.

30. The previous contract, case L17b (contract PTD/127/0085/96), was signed on 30 August 1996. It was amended five times, and reached a total cost of $25.4 million for the period between September 1996 and January 1999. Since 1997 the Headquarters Committee on Contracts had repeatedly requested the Procurement Division to rebid this contract, since it was not certain that the costs charged by the contractor were reasonable, a concern that appeared to have been well-founded. A previous audit conducted in July 1999 by the OIOS resident auditor posted in Baghdad pointed out instances where the contract had been unfavourable to the Organization and had resulted in questionable charges for deployment and travel costs. These charges could not be recovered owing to certain adverse provisions of the contract. *The Procurement Division commented that on each occasion it had sought to rebid the contract. However, the Department of Political Affairs and the Office of the Iraq Programme had repeatedly demanded that the existing contract be extended, and it was only when the Office of the Iraq Programme had expanded the scope of the contract that the Procurement Division had been able to convince the requisitioner that the terms and conditions offered by the contractor were not favourable. Although not specifically commenting on this report, the Office of the Iraq Programme stated that there were valid reasons for extending the original contract. They further noted that a rebidding exercise had been undertaken subsequently and that a new inspection agent had been selected effective February 1999.*

31. OIOS compared the costs of the new contract (PD/CON/324/98) with the costs charged in amendments 2 to 5 of the previous contract (PTD/127/0085/96), which covered a 14-month period, and found that the new contact was significantly less expensive, as shown below:

Contract PTD/127/0085/96	$16,366,863 for 14-month period ($1,169,062 per month)
	$21,043,116 for 18-month period
Contract PD/CON/324/98	$16,238,090 for 18-month period
Estimated savings under new contract	$4,805,026

32. *The Procurement Division commented that comparing the first and second contract, as in the example above, was irrelevant for the following reasons. The first contract had included a number of initial investments and contingency costs that did*

not exist in implementing the second contract. Also, several infrastructures set up by the first contractor had been sold to the second contractor at depreciated values. OIOS notes, however, that the initial investments and contingency elements in the first contract as well as the depreciated cost of infrastructures in the second contract were not separately costed by the contractors or by the Procurement Division. Therefore, those costs could not be taken into account in comparing the contracts. *The Procurement Division maintained that initial investment costs and depreciation were normally considered in all commercial projects.*

33. On 24 September 1998, the Office of Legal Affairs expressed concerns about the delay in incorporating its proposed changes to the request for proposals, which had been transmitted by the Office in 1996 during the first bidding exercise. Those changes essentially involved clarifications to the United Nations requirements, as specified in the statement of work annexed to the request for proposals.

F. Determination and formulation of requirements

1. Need to improve the determination of requirements for air transportation services

34. According to the Procurement Manual, section 6.00, the invitation to bid should be used for the procurement of goods and services of standard and firm specifications. However, OIOS noted that the requirements for air transportation services were not adequately clarified in cases L7 and L14 discussed below, thereby effectively negating the purpose of the invitation to bid.

Case L7 (PD/CO445/99, long-term air transportation services for $7,067,600)

35. At a special meeting on 8 July 1999, the Headquarters Committee on Contracts recommended that the two lowest bidders in this case (who were found to be both technically and operationally non-compliant) be disqualified. The Committee also noted that the third bidder had not complied with the minimum payload requirement of 4,000 kilograms shown in the invitation to bid. Normally, the fourth lowest bidder, who was found to be technically and operationally compliant, should have been awarded the contract. However, the Procurement Division subsequently concluded that this bidder was unable to meet the positioning requirements of the Field Administration and Logistics Division. The Committee therefore recommended that all bids be rejected and that a negotiated contract be entered into if rebidding were not a feasible option. The contract was rebid with a reduced payload requirement, and after a second meeting of the Committee, held on 28 July 1999, the contract was awarded to the third lowest bidder.

Case L14 (PD/CO525/99, long-term air transportation services for $16,410,000)

36. OIOS noted that the positioning requirements (the dates on which aircraft would be made available) relating to this contract were changed twice. The first invitation to bid, issued on 24 November 1999, indicated that the two helicopters requested should be deployed on 20 December 1999. Since no bidder could comply with this positioning requirement, revised offers were requested by 15 December 1999 for deployment no later than 31 December. The original invitation to bid was cancelled, and a second invitation, issued on 17 December 1999, did not specify any date for positioning, but rather indicated "as early as possible".

37. Based on the second invitation, the contract was awarded to a carrier who offered to deploy the helicopters 6 and 11 days after the award, which was actually more than 10 days later than the date stipulated in the first invitation to bid. In the view of OIOS, the stipulation "as early as possible" in the second invitation could have been included in the first invitation to bid. This case illustrates that there is a need for the Field Administration and Logistics Division to more fully ascertain the extent to which projections made by field missions are realistic or are subject to change.

38. *The Office of Central Support Services noted that recommendation of the lower-cost offer would have required that the Field Administration and Logistics Division accept it as meeting the technical requirements. The Office further indicated that it was in the interest of both bidders and the United Nations to identify a firm deployment date and that it was not unreasonable for the Procurement Division to lower the standard to "as early as possible" in the rebidding exercise since earlier fixed dates has not yielded results. The Field Administration and Logistics Division emphasized that mission operational requirements must stand on their own merit and not be subjected to modification as a result of commercial considerations. The unfortunate delay experienced in the procurement exercise did not invalidate the original specifications. The Division further stated that field conditions were always uncertain and that specifications must address a broad range of operational requirements and contingencies.* In view of the above, OIOS believes that whenever appropriate, offers should be solicited on the basis of the broadest range of anticipated operational requirements to avoid repeated modification of requirements and rebidding.

2. Deficiencies in formulating requirements for inspection services

39. Case L18 (contract PTD/CON/127/065/96) for $18,170,956 involved the procurement of independent experts in the international oil trade for the Organization's oil-for-food programme. At the time of the review by OIOS, the contract had been completed. After rebidding, another award was made to the same vendor in the amount of $5,316,510 — case L18b (contract PD/CO114/00).

40. OIOS noted deficiencies in the formulation of the request for proposals for the original contract. The presentation to the Headquarters Committee on Contracts for this contract (PTD/CON/127/065/96) was made by the Purchase and Transport Division (the predecessor organization of the Procurement Division) on 19 July 1998 and indicated that the Department of Political Affairs (the requisitioning office) had recommended that the contract be awarded to the company ranked second in the procurement evaluation in 1996 based on the criterion of lowest acceptable offer. However, procurement officials stated that the significant difference of $624,096 between the prices proposed by the two lowest bidders ($1,778,220 and $2,402,316 respectively) could not be overlooked. Based on those remarks, the Department of Political Affairs requested advice from the Iraq Steering Committee, which suggested that the number of inspectors be increased and that adjusted proposals be obtained from the two finalists.

41. The lowest bidder under the initial request for proposals then made a proposal of $1,943,040 based on the new requirements, which was about $38,000 more than the other bidder, who was subsequently awarded the contract. OIOS could not determine the justification for changing the original requirements, which led to the

selection of a bidder other than the initial lowest bidder. The review by OIOS of pertinent documentation showed that the requisitioning offices (the Department of Political Affairs and the Iraq Steering Committee) had attempted to justify their position with arguments relating to the contractor's verification capabilities and the nationality of inspectors. These arguments were subsequently rejected by the Purchase and Transport Division.

42. The two contractors mentioned above were also the lowest bidders for the new contract (contract PD/CO114/00). Of the three proposals submitted, only the one from the contractor who had been awarded the earlier contract (contract PTD/CON/127/065/96) was found to be technically acceptable. According to the minutes of the Headquarters Committee on Contracts meeting, the other proposals lacked direct responsiveness and basic comprehension of the requirements. On the basis of the lowest bid of $5,316,510, contract PD/CO114/00 was awarded to the same contractor who had been selected for the original contract. However, the minutes indicated that the second lowest bidder had proposed a lower cost per expert, although in total its proposal amounted to $6,480,408. In the opinion of OIOS, the lack of correlation between the unit cost per expert and the overall cost proposal in the labour contract is an indication that the request for proposals did not provide sufficient information concerning the volume and conditions of work.

43. *The Office of Central Support Services commented that the request for proposals was very comprehensive and clear as to the requirements of the contract and as to what information, equipment and services the United Nations would provide to the contractor. It further commented that the second lowest bidder had failed to make a clear distinction in the proposed allocation of personnel for the monitoring of oil exports from Iraq and for the in-country monitoring of oil, spare parts and equipment.* In the opinion of OIOS, this indicates that further clarification of the proposed allocation of personnel among the monitoring functions was needed in the request for proposals. In view of the experience already developed in this area by the oil-for-food programme, OIOS believes that future bidding exercises for the provision of inspectors should be based on updated specifications, including the appropriate allocation of inspectors among the monitoring functions, thereby providing an equitable basis for the contract award.

3. Need to ensure that existing requirements are consolidated

44. OIOS noted that the requirements for radio telephone and telephone links for peacekeeping missions had not been consolidated before the bidding exercise was initiated. The Field Administration and Logistics Division raised three such requisitions, in September and October 1999, totalling $1,596,800. Although the first two requisitions were approved in October 1999, the third requisition was retained in the Division until 17 December. In the meantime, the Procurement Division had distributed the invitation to bid for the two requisitions, which had been consolidated. Offers were received from three vendors, which were transmitted to the Division for technical evaluation.

45. There was no documentation showing that the Procurement Division and the Field Administration and Logistics Division had discussed the timing of the three requisitions, and there was no mention in the minutes of the Headquarters Committee on Contracts that the Field Administration and Logistics Division had been aware of other existing requirements before the invitation to bid was issued. In

the view of OIOS, all of the related requisitions should have been disclosed to the Procurement Division, which in turn should have ensured that all existing requirements were consolidated before the invitation to bid was issued.

46. *The Office of Central Support Services commented that the Field Administration and Logistics Division and the Procurement Division were in continuous contact and that issues such as the consolidation of related requisitions were normally discussed. The Office further stated that when the third requisition, discussed in paragraph 42 above, came to the attention of the Procurement Division, it invited the resubmission of bids on account of the higher volume, which resulted in a 5 per cent savings to the Organization. The Field Administration and Logistics Division commented that its first responsibility was to meet the needs of peacekeeping missions that support military deployments, usually in emergency situations. According to the Field Administration and Logistics Division, requirements change rapidly to meet those needs, and it is not always possible to consolidate requirements before issuing invitations to bid.*

G. Supervision and control of low-value purchases

47. The Procurement Division procurement assistants process low-value requisitions, which generally do not exceed $25,000, and approve awards for purchase orders valued at less than $7,500. OIOS reviewed 28 such requisitions with a total estimated value of $535,346. (The total value of all requisitions raised during the period was approximately $17 million.) The value of individual purchase orders corresponding to the requisitions sampled by OIOS ranged from $1,854 to $83,590 and amounted to $405,600 in total. (See annex 2 for a summary of the low-value procurement cases audited.)

48. OIOS noted that in all instances the delegation of authority was complied with. OIOS also found that the procedure for exigency procurement was used only once, and that this case was sufficiently justified. However, the audit also showed that there was no system in place to monitor cases assigned to procurement assistants and, as discussed below, processing times appeared to be excessive in several instances. Although individually, the amounts of these low-value purchase orders may be relatively insignificant as compared with the multimillion-dollar contracts processed by the Procurement Division, when aggregated those purchase orders are material, warranting closer supervision and control.

1. Need to effectively monitor processing turnaround times

49. The processing times for the 28 cases audited by OIOS ranged from 1 to 210 days. Fourteen cases were processed (i.e., the purchase order was issued) within 25 days after receipt of the requisition, which is the standard indicated in the Procurement Manual. OIOS noted that for some of the cases that did not meet the standard processing time, there had been no competition for the purchase orders, which normally should have shortened the process. The cases with the longest turnaround times were as shown in table 4.

Table 4
Cases processed with the longest turnaround times

Case number and description	*Type of bid*	*Processing turnaround time*
S6 (PG6570), $19,975, computer equipment	Request for quotation sent to 40 vendors	Turnaround time: 147 days; a delay of 104 days was attributable to the requisitioning office, which did not amend the requisition or follow up on the processing of the purchase order.
S12 (PG7354), $83,590, voiceware upgrade	No bid (proprietary)	Turnaround time: 142 days; a delay of 73 days was attributable to the requisitioning office, which did not amend the requisition. Another delay occurred because the vendor was not registered.
S24 (PG7050), $14,375, computer equipment	Request for quotation sent to 10 vendors	Turnaround time: 210 days; two amendments were made 2 months and 4 months after receipt of the requisition by the Procurement Division. An additional delay of 100 days was not explained.
S25 (PG7209), $30,316, computer equipment	No bid (part of a systems contract)	Turnaround time: 71 days; the requisition was held up owing to the time needed to finalize the systems contract.

50. There was no evidence showing that Procurement Division supervisors monitored procurement turnaround times. The case files did not contain target completion dates, and although delays were sometimes attributable to the requisitioning office, there was no evidence showing that they were investigated or brought to the attention of higher-level officials. In the opinion of OIOS, formal procedures need to be established to better control and shorten the time frame for processing low-value purchases.

51. *The Office of Central Support Services commented that the allocation of staff resources to deal with client requirements on a priority basis necessarily resulted in some requisitions being delayed. Owing to limitations in the interface of IMIS and the Reality system, it was not possible until recently to effectively monitor purchase requisitions. However, the Office has advised OIOS that a tracking system is now in place and as a result, Procurement Division supervisors and management are able to effectively monitor the progress of requisition processing.*

2. Insufficient competition and utilization of the vendor roster

52. OIOS noted that in many cases awards (including blanket purchase orders) were made for commitments of less than $25,000 at Headquarters without assessing competitive quotations as required by financial rule 110.19 (a). Several of the contracts were awarded to the previous suppliers without competition. These included blanket purchase orders for security detectors (case S10), cellular phones and audio accessories (case S11), photographic products (case S15), medical supplies (case S20), camera system parts and supplies (case S23) and two orders for external printing of cheques (cases S18 and S19). For the blanket purchase orders,

the individual statements of award mentioned only that the award was based on satisfactory previous performance by the vendor, without any other explanation.

53. In cases S18 and S19, security reasons were cited as the justification for using the same vendor. However, in the opinion of OIOS, even in such cases it is preferable to identify alternative sources to avoid excessive dependence on one particular vendor. In the view of OIOS, the above awards made to previous suppliers without competition were not adequately justified, particularly because in some instances a large number of other prospective vendors were on the roster. *The Procurement Division commented that the view of OIOS that alternative suppliers should be identified for small-value items was contrary to present efforts to be more cost-effective.* However, OIOS points out that for low-value purchases, financial rule 110.19 (a) requires that an assessment be made of competitive quotations prior to making the award. In addition, the Procurement Manual specifies that the exception to calling for bids for proprietary articles should be used on rare occasions and with strong justification in view of the availability of a number of alternative products and services in the international market.

IV. Recommendations

54. In order to further improve the Organization's procurement process, OIOS makes the recommendations indicated below.

Recommendation 1

(refer to paras. 12-16)

55. The Assistant Secretary-General for Central Support Services should re-examine the current interpretation of financial rule 110.17 (a) with a view to ensuring that all cases requiring verification by the Headquarters Committee on Contracts are submitted for its review. In this regard, the Procurement Division should study the administrative implications of replacing the calendar year with a period defined as the 12 consecutive months immediately preceding the proposed award as the period of reference under financial rule 110.17 (a) (AH1999/1/3/001).

56. *The Office of Central Support Services accepted this recommendation.*

Recommendation 2

(refer to paras. 17 and 18)

57. In order to make responsible managers more aware of previous awards and help to identify those commodities that should be consolidated under systems contracts, the Procurement Division should examine the feasibility of establishing a procedure to accumulate information on the number and value of contracts awarded to a particular vendor in the 12 months immediately preceding a proposed award (AH1999/1/3/003).

58. *The Office of Central Support Services accepted this recommendation.*

Recommendation 3

(refer to paras. 19 and 20)

59. The Under-Secretary-General for Management should review and approve all formal interpretations of the financial regulations and rules governing procurement activities (AH1999/1/3/002).

60. *The Office of Central Support Services accepted this recommendation, noting that the Under-Secretary-General for Management had actually endorsed the calendar year interpretation of financial rule 110.17 (a) when he promulgated the Procurement Manual in 1998.*

Recommendation 4

(refer to paras. 22 and 23)

61. The Under-Secretary-General for Peacekeeping Operations should ensure that decisions to contract with Governments are made only after determining that the conditions for using letters of assist have been satisfied, and also should ensure that the basis for such decisions is fully documented. The Department should maintain the related documentation for such awards (AH1999/1/3/004).

62. *The Field Administration and Logistics Division accepted this recommendation.*

Recommendation 5

(refer to paras. 21-26)

63. To ensure that decisions to contract with Governments are fully documented and that the Organization receives full value for its money, the Procurement Division should revise the Procurement Manual to specify the procedures for processing letters of assist, including the use of comparable cost data and the justification of decisions (AH1999/1/3/005).

64. *The Office of Central Support Services and the Field Administration and Logistics Division accepted this recommendation.*

Recommendation 6

(refer to paras. 27 and 28)

65. In order to maximize air transportation vendor participation in bidding for United Nations contracts, the Procurement Division should conduct a market survey of air transportation services available in each region where the United Nations operates and encourage those companies identified to register as prospective vendors (AH1999/1/3/006).

66. *The Office of Central Support Services accepted this recommendation.*

Recommendation 7

(refer to paras. 29-33)

67. The Assistant Secretary-General for Central Support Services, when appropriate, should ensure that recommendations made by the Office of Legal Affairs and the Headquarters Committee on Contracts in compliance with procurement rules and procedures, as in the case of the contract for inspection services under the oil-for-food programme, are fully implemented, thereby minimizing cost inefficiencies. Any exception to that procedure should be fully and explicitly accounted for (AH1999/1/3/007).

68. *The Office of Central Support Services accepted this recommendation.*

Recommendation 8

(refer to paras. 34-38)

69. The Procurement Division and the Field Administration and Logistics Division should ensure that when field conditions are uncertain, invitations to bid for air transportation services should be based on the broadest anticipated range of operational requirements to avoid repeated modification and rebidding as well as the related costs (AH1999/1/3/008).

70. *The Office of Central Support Services and the Field Administration and Logistics Division accepted this recommendation.*

Recommendation 9

(refer to paras. 39-43)

71. To provide an equitable basis for the award of inspection service contracts, the Procurement Division should ensure that the Office of the Iraq Programme provides updated specifications for future bidding exercises regarding the provision of inspection services for the oil-for-food programme. Such specifications should include the overall number of inspectors required, as well as their expected allocation under each monitoring function (AH1999/1/3/009).

72. *The Office of Central Support Services accepted this recommendation.*

Recommendation 10

(refer to paras. 44-46)

73. To ensure that all requirements are consolidated before an invitation to bid is issued, the Procurement Division should instruct the requisitioning offices on the need for providing complete information about approved as well as planned requisitions in order to take full advantage of potential volume discounts (AH1999/1/3/010).

74. *The Office of Central Support Services agreed, noting that this recommendation had already been implemented to the extent possible.*

Recommendation 11

(refer to paras. 49-51)

75. To enhance the management of low-value purchases, the Procurement Division should ensure that the assignments given to procurement assistants include target completion dates based on performance indicators determined for each commodity. Major departures from target dates should be approved by the supervisor, and cases requiring action by the requisitioning offices should be followed up in a timely manner (AH1999/1/3/011).

76. *The Office of Central Support Services accepted this recommendation.*

Recommendation 12

(refer to paras. 52 and 53)

77. The Procurement Division should ensure that in the future the selection of vendors for purchases of less than $25,000 is based on an assessment of competitive quotations as required by financial rule 110.19 (a), using the vendor roster to the extent possible (AH1999/1/3/012).

78. *The Office of Central Support Services accepted this recommendation.*

79. OIOS received detailed comments on a draft of the present report from the Assistant Secretary-General for Central Support Services, the Department of Management, the Director of the Field Administration and Logistics Division, the Department of Peacekeeping Operations and the Office of the Iraq Programme. The report has been revised, where appropriate to reflect those comments, which are printed in italic type.

(*Signed*) Dileep **Nair**
Under-Secretary-General
Office of Internal Oversight Services

Annex I

Summary of high-value procurement cases

Case number	Reference	Commodity	Contract type	Bid type	Number of invitees	Contract amount (United States dollars)	Turnaround time (days)
L1	SYS-PD/CO483/99	Microcomputers	System contract	Invitation to bid	21		
	PG7245-RQSN8498					488 215	
	PG7134-RQSN8149					139 490	
	PG7259-RQSN8199					278 980	135
L2	SYS-PD/CO482/99	Computer services	System contract	Invitation to bid	21		
	PG7135-RQSN8149					344 500	
	PG6979-RQSN8199					1 378 000	150
L3	SYS-PD/CO209/98	Vehicles	System contract	Request for proposals	23	4 225 694	165
	PG6722-RQSN8015						
L4	SYS-PD/CO347/99	Vehicles	System contract	Request for proposals	3	2 137 500	150
	PG6756-RQSN8017						
L5	PD/CO428/99	Air charter,	Long-term	Invitation to bid	20	385 800	90
	PS3426-RSQN4126	MINURCA					
L6	PD/CO373/99	Air charter,	Long-term	Invitation to bid	14	402 152	105
	PS3061-RSQN4478	UNOMIG					
L7	PD/CO445/99	Air charter,	Long-term	Invitation to bid	27	7 067 600	45
	PS3452-RSQN4368	UNMIK					
L8	PD/CO494/99	Air charter,	Short-term	Invitation to bid	3	98 679	16
	PS3620-RSQN4667	MINURCA					
L9	PD/CO510/99	Air charter,	Short-term	Invitation to bid	46	1 077 650	30
	PS3877-RSQN4810	UNAMSIL					Invitation to bid
L10	PD/CO444/99	Air charter,	Short-term	Invitation to bid	22	291 495	prior to requisition
	PS3470-RSQN4483	UNMIK					
L11	PD/CO484/99	Air charter,	Short-term	Invitation to bid	20	1 251 500	22
	PS3661-RSQN4657	UNAMET					
L12	PD/CO502/99	Air charter,	Short-term	Invitation to bid	46	1 084 022	20
	PS3936-RSQN4810	UNAMSIL					
L13	PD/CO523/99	Air charter,	Long-term	Invitation to bid	28	4 106 000	108
	RSQN4874	UNTAET					
L14	PD/CO525/99	Air charter,	Long-term	Invitation to bid	28	16 410 000	45
		UNAMSIL					
L15	ARGENTINA/UNFICYP/ 2000-21	Air charter, UNFICYP	Short-term letter of assist	No bid/reference to requisition 5032	Not applicable	570 000	Not applicable

Case number	Reference	Commodity	Contract type	Bid type	Number of invitees	Contract amount (United States dollars)	Turnaround time (days)
L16	GHANA/UNIFIL/ 2000-18	Air charter, UNIFIL	Short-term letter of assist	No bid/reference to requisition 5032	Not applicable	360 000	Not applicable
L17	PD/CON324/98 PS3403-RSQN4464	Inspection services Goods, Office of the Iraq Programme	Contract	Invitation to bid	13	16 238 090	Not available
L17b	PTD/127/0085/96			Not applicable	2	25 366 863	Not available
L18	PTD/CON127/065/96 PS3047-RSQN4556 & RSQN4824	Inspection services Oil, Office of the Iraq Programme	Contract	Request for proposals	8	15 490 576	67
L18b	PD/CO114/00			Request for proposals	26	5 316 510	Not available
L19	PD/CO049/00	Labour contract	Contract	Request for proposals	60	7 858 764	Not available
L20	PD/CO398/99 PG6867-RQSN7709 & RQSN8135	Telecommunication equipment	Contract	Request for proposals	30	1 232 000	215
L21	PG7624-RQSN8037 PS7624-RQSN8348 PS7625-RQSN8407	Telecommunication equipment	Contract	Request for proposals	36	1 888 910	120
	Total					**115 488 990**	

Acronyms: MINURCA, United Nations Mission in the Central African Republic; UNOMIG, United Nations Observer Mission in Georgia; UNMIK, United Nations Interim Administration Mission in Kosovo; UNAMSIL, United Nations Mission in Sierra Leone; UNAMET, United Nations Mission in East Timor; UNTAET, United Nations Transitional Administration in East Timor; UNFICYP, United Nations Peacekeeping Force in Cyprus; UNIFIL, United Nations Interim Force in Lebanon.

Annex II

Summary of low-value procurement cases

Case number	Reference	Commodity	Contract type	Bid type	Number of invitees	Contract amount (United States dollars)	Turnaround time (days)
S1	PG6604-RQSN7730	Projection screen	Purchase order	Request for quotation	12	4 422	27
S2	PG5700-RQSN6560	Computer software	Purchase order	No bid/proprietary	Not applicable	22 848	22
S3	PG4098-RSQN5029	Cleaning supplies	Purchase order	Request for quotation	3	1 944	25
S4	PG4193-RQSN5028, 5030 & 5031	Stamp mounts, 1998 flag series	Purchase order	Request for quotation	9	8 744	56
S5	PS3049-RQSN3597	File missing				4 000	147
S6	PG6570-RQSN7760	Computer equipment	Purchase order	Request for quotation	40	19 975	23
S7	PG6746-RQSN7782	Computer equipment	Purchase order	Same as S7	13	14 625	19
S8	PG6770-RQSN7970	Computer equipment	Purchase order	No bid/proprietary	Not applicable	28 800	
S9	BP00529-BPQN638	Cellular phones	Blanket purchase order		Not applicable	10 000	55
S10	BP00582-BPQN704	Detector	Blanket purchase order	No bid/previous supplier	Not applicable	10 000	39
S11	BP00628-BPQN724	CellularAir phones Audio accessories	Blanket purchase order	No bid/previous supplier	Not applicable	10 000	25
S12	PG7354-RQSN7477	Voiceware upgrade	Purchase order	No bid/proprietary	Not applicable	83 500	142
S13	PS2872-RQSN3766	Leasing services	Purchase order	No bid/proprietary	Not applicable	9 590	1
S14	No PO - RQSN5200	Maintenance for back-up system	Not registered vendor/no purchase order	No bid required	Not applicable	24 432	3
S15	BP0499-BPQN620	Photographic products	Blanket purchase order	No bid/previous supplier	Not applicable	15 000	13
S16	PG2839-RQSN3776	United Nations security uniforms	Purchase order	No bid/previous supplier	Not applicable	3 093	28
S17	PG7158-RQSN8561	Generator	Purchase order	No bid/exigency	Not applicable	57 550	8
S18	PS3000-RSQN3902	External printing of cheques	Purchase order	No bid/previous supplier	Not applicable	1 854	41
S19	PS3138-RSQN4119	External printing of cheques	Purchase order	No bid/previous supplier	Not applicable	5 960	13
S20	BP00615-BPQN759	Medical supplies	Blanket purchase order	No bid/no reason mentioned	Not applicable	15 000	19

Case number	Reference	Commodity	Contract type	Bid type	Number of invitees	Contract amount (United States dollars)	Turnaround time (days)
S21	PS2847-RSQN3795	Household expenses	Purchase order	No bid required	Not applicable	15 000	30
S22	PS3105-RSQN4110	Real estate services	Purchase order	No bid required	Not applicable	29 165	12
S23	BP004525-BPQN560	Parts and supplies for camera system	Blanket purchase order	No bid/previous supplier	Not applicable	10 000	1
S24	PG7050-RQSN7494	Computers	Purchase order	Request for quotation	10	14 375	210
S25	PG7209-RQSN8245	Computers	Purchase order	System contract	Not applicable	30 316	71
S26	PG8049-RQSN8856	Data communication	Purchase order	No bid/proprietary	Not applicable	51 220	31
S27	PG6279-RQSN7207	Video system	Purchase order	No bid/proprietary	Not applicable	28 820	29
S28	PG7640-RQSN8787	Computers	Purchase order	Request for quotation	8	19 128	17
	Total					**405 600**	